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REVIEW OF THE ECONOMY OF CHINA

At the 28th Annual Meeting of the British Chamber of Commerce, Shanghai, the Chairman, Mr. John Keswick, addressed the Meeting as follows:—

The following remarks are an attempt to give a brief review of conditions in China during the last twelve months as they have affected traders, bankers and merchants, and in particular the British. I shall deal with certain aspects of currency and exchange, imports and exports, labour and wages, shipping, insurance, taxation and so on.

Before going further, I should like to express the Chamber's satisfaction at the co-operation which we have received from our Chinese, American and European friends. We hope that we shall always be able to work in close harmony with them all.

EXCHANGE & CURRENCY

Our last meeting in September 1946 took place only a week or two after the first alteration in the official rate of exchange, and shortly afterwards an official rate for Sterling was quoted for the first time. While the new rates helped exports temporarily, it soon became evident that a cure for the ills which beset foreign trade had not been effected, and in November the "Revised Temporary Foreign Trade Regulations" were published, which severely restricted the hitherto almost complete freedom of imports. Despite both these measures exports still lagged, and in February—after a short-lived attempt to boost exports by means of a subsidy—a further and much larger change was announced in the official rates which were thereafter called CN\$12,000 for US\$1, and \$48,000 for £1.

For a week or two exporters were again able to do business, and a feeling of optimism prevailed, but they

received an unpleasant surprise when the official buying rate for Sterling and its allied currencies was suddenly dropped by about 20%. It is understood that this action was intended to counteract the drain on China's foreign exchange which was taking place through Hongkong, but unfortunately this proved to be ineffective and the result was that importers benefited at the expense of exporters, because Banks were for a long time operating around the lower level for Sterling. With the falling of exports and overseas remittances, sterling business has again moved up to around the 48,000 mark, but in the meantime commodity prices have risen to a level completely out of line with official exchange rates, while labour costs have trebled.

These conditions, coupled with falling prices abroad, have once more made exports from China virtually impossible. The position is serious. I understand that it is receiving the earnest attention of the authorities, as I shall explain in greater detail under the heading of Exports.

The hope I expressed last year for some relaxation of the Regulations respecting remittances has not been fulfilled; on the contrary, such official facilities as were available to us a year ago for remittances covering family maintenance, school fees, life insurance etc., were withdrawn in February last pending the issue of revised Regulations. These have not yet been published, and the long delay is, I fear, causing considerable hardship to many. Representations on this subject have been made on several occasions.

It is interesting to record the movements of the Chinese official exchange rates during the past few years:

In 1944	US\$1 -	CN\$ 20.-
1946 (March) ..	" -	2,020.-
1946 (August) ..	" -	3,350.-
1947 (February) ..	" -	12,000.-

Six months ago the highest denomination of notes in current circulation was \$2000.—today it is \$10,000.—

I leave you to draw your own conclusions from these simple figures.

One further point is worth recalling while I am on the question of currency. Up to February 1947 there was a strong black market, known more accurately as the "open" market, for it was apparently condoned by the Central Bank. The facilities offering were sufficient to finance a considerable import trade in all types of goods, both for small consumers and for heavy industries, as well as to allow substantial remittances for other purposes.

However, in mid-February the Government authorities decided to close down on such activities and certain arrests were made. One foreign broker was imprisoned, and the way of his going did not inspire confidence in the rule of law in China, while the then Governor of the Central Bank and two of his associates were arraigned for impeachment. It seems that the Chinese Civil Service has been much affected by these impeachments and has thereby suffered an undermining of confidence in itself.

The assumption of office by Mr. Chang Kia-ngau as Governor of the Central Bank has been widely approved, his reputation as a banker and administrator is firmly established in China and abroad. Both in London and New York his appointment has given encouragement, but

it is regretted that the political and economic conditions essential for the investment of private funds in the reconstruction of this vast country still do not exist.

IMPORTS INTO CHINA

The Revised Temporary Foreign Trade Regulations promulgated on November 17th, 1946, have had a profoundly disturbing, if not a paralyzing, effect on the import trade of China. These regulations provide that the importation of luxury goods, and of some commodities which cannot be regarded as luxuries, is prohibited, the importation of all other commodities being brought under licence. A large section of the import trade in essential commodities consisting of vegetable and mineral oils, textile fibres, motorcars, tobacco, flour, wheat, coal and coke, and a large number of industrial materials is regulated by quotas allocated by a special Quota Section of the Import Board.

That China was compelled to protect her rapidly diminishing resources of foreign exchange and to attempt to restore a healthy balance between imports and exports was self-evident. She would perhaps have been wiser to take such measures much earlier than she did.

In themselves the regulations, although drastic, are no more exacting than similar measures in force in some other countries of the world. The officials appointed to the senior positions in the Import Board were men of sincerity and integrity faced with a task of extreme difficulty, which has been accentuated by a shortage of experienced staff and by the disturbing effect of changes in the personnel of the Government and the highest officials responsible for the policy of the Board.

The recent appointment of Mr. Li Ming as Deputy Chairman of the Import Board under the leadership of the Governor of the Central Bank inspires confidence in the future administration of this important department of the Government.

The import restrictions have brought about an enormous reduction in imports, and the full effects of the measures have yet to be felt. They have led to wholesale cancellation of orders or business enquiries with overseas manufacturers and shippers. Without much larger imports of machinery, mechanical equipment and prime movers China's plans for industrial rehabilitation and development cannot be carried into effect, and her existing industries are threatened with a severe shortage of metals, chemicals, dyestuffs and many other essential commodities. This shortage is a source of acute anxiety to those British firms operating factories in Shanghai and other parts of China who do not qualify for quotas in their own right and have to depend

for their imports on merchants who happen to hold the quotas and may or may not be regarded as suitable suppliers.

The procedure in connection with the issue of permits to import goods in the quota group is that the applicant must first be placed on the approved list of importers, and subsequently is given a quota related proportionately to his past trading performance expressed in terms of remittance value in U.S. Dollars. Unfortunately the Board has so far found it necessary to take the year 1946 as the reference period and has only been able to give secondary consideration to the pre-war status of the importer. Whilst it is not suggested that the Board has wished to be anything but fair in arriving at its decisions the choice of the year 1946 as a standard of comparison has proved to be particularly unfortunate for British importers, especially those engaged mainly in importing goods from Great Britain.

When the Pacific War came to a close many British firms in China found that their premises had been occupied and ransacked by the enemy, their records destroyed and their staffs dispersed. British manufacturers at home were faced with post-war reconversion problems and ship-

ping difficulties and were unable immediately to resume shipments to China. It was therefore not until well into the year 1946 that British import firms were able to get into their stride.

In the meantime Chinese and neutral firms which had escaped the worst features of war disorganisation, or had been formed during the war when the old-established firms were out of action, had taken advantage of a shortage of goods to place orders in America or elsewhere for almost any saleable commodity at almost any price. Some of these firms were importers of good standing with previous knowledge and experience of the import trade; many were mushroom firms buying in the black market abroad, importing at very high prices and giving a comparatively poor return for the foreign exchange granted to them for the payment of their goods.

Although such was not the intention of the Import Board, the Regulations have played into the hands of those jobbers or speculators who were able to take immediate advantage of the feverish demand for goods which asserted itself as soon as the war with Japan came to a close.

Up to 1941 the import trade of China was very largely in the hands of a comparatively small number of British and foreign firms. By the end of 1945 several thousand firms and individuals had placed orders abroad. In the quota Group of Commodities, excluding a few specialised

imports, the Board scrutinised 3698 applications for registration as Importers. Of this large number 577 Chinese firms and 388 non-Chinese were approved.

The result is that many British firms who for many years before the war played a leading part in the import trade find themselves with quotas far smaller than those given to dealers with no permanent stake in the trade and no regular source of supply. Other British firms representing well-known manufacturers have been refused recognition as approved importers, presumably because they transacted little or no business during the critical year 1946. In most cases the Board has not furnished reasons for rejecting applications to be placed on the approved importers' list. The inevitable result of the present quota distribution will be that some firms have obtained quotas which they are unable to fill whilst others, well connected with important overseas suppliers, have offers of supplies well in excess of their import quotas.

In an attempt to prevent hoarding and speculating the Board requires import applications to be accompanied by contracts of sale between the importer and his customer, preference being given to direct sales to consumers. This regulation makes no provision for firms which, in the regular course of their business and to the advantage of the public, import for stock and sell ex-warehouse in big or small quantities to meet seasonal and fluctuating demands and to serve an up-country distributing organisation.

It has to be admitted that all the efforts of the Import Board have not succeeded in preventing the importation through irregular channels or by illicit means of high-priced motorcars, radios and other goods which are officially on the prohibited list and are not available to the reputable importer.

Finally, the importer has a legitimate grievance on account of the serious delays in issuing import permits and the corresponding foreign exchange permits.

Many of the protests lodged by importers against the rulings of the Import Board have been brought to the attention of the Chamber. Whereas it is not considered advisable for the Chamber to take up individual cases, your Committee has taken the opportunity of drawing the attention of the proper authorities to the main defects in the present procedure. Whilst these representations have been received with sympathetic understanding the regulations as they stand at present do not permit of any great alleviation of the position. Your Committee is satisfied that the Board is fully aware of the defects in the scheme and anxious to do its best to eradicate them.

The need for restricting imports must be fully recognised, but it is considered that the regulations as now imposed place at a disadvantage pre-war importers, of whom many are British. The regulations appear to hamper British industrialists wishing to import for use in their own establishments and it is further believed that the regulations do not operate to the benefit of China.

In placing on record the difficulties of the Shanghai importer the Chamber does not overlook the still greater difficulties with which import firms operating in Tientsin, Tsingtao and other outposts are unfortunately faced. No substantial improvement can however be looked for until peace has been restored and until the ills which afflict China's economic life shall have been removed.

EXPORTS FROM CHINA

Since my last report the Chinese Export Trade has, I regret to say, remained in the doldrums. Realising the pressing need for exports the Chinese Government has given much consideration to this trade and has on several occasions requested foreign merchants to give them the benefit of their experience in trying to resuscitate this important part of China's economic structure.

An Export Promotion Board was set up just before the end of 1946 and is now under the able Deputy Chairmanship of Mr. K. P. Chen. Your Chairman and Mr. J. H. Liddell were invited to attend the opening meetings and several opportunities have presented themselves for assisting the Chinese Authorities. The Export Promotion Board has a panel of 17 sub-committees dealing with the various export commodity groups. Following a lead from Dr. T. V. Soong, then President of the Executive Yuan, a foreign Exporters' Association was organised by this Chamber and through a series of meetings of all foreign exporters two foreign representatives were recommended for inclusion in each of the 17 sub-committees just mentioned.

Taking a broad view, China's exportable surpluses are unable to find a market abroad because the high cost of goods and services in China, taken in conjunction with the official rate of exchange, make it generally impossible for these goods to compete in the world's markets. Unfortunately for China the general level of commodity prices in America and elsewhere has receded during the first half of this year.

These high prices in China are influenced by many known factors which are the result of post-war circumstances; for instance, poor but expensive transportation, high cost of labour and enormous interest rates resulting in excessive production costs. All these factors are capable of gradual improvement, but until greater political stability is

achieved conditions which will favour a sound and expanding export trade cannot be anticipated.

In order to promote exports the Government brought in a scheme on 6th February 1947 which provided a 100% exchange bonus to exporters payment of which was covered by a 100% increase in Customs Duties on all imports. This scheme was unsuccessful mainly because no provision was made for the control of the prices of domestic products. The consequence was that the holders and dealers in exportable goods raised their prices immediately thus canceling any possible price benefit in the world markets and at the same time increasing local inflation. There was also difficulty with anti-subsidy legislation in the U.S.A. and the weakness of the scheme was soon evident, thus the Emergency Exchange Regulations of 17th February were used to cancel these arrangements.

A more recent obstacle to the furtherance of China's exports has been the soaring prices of those export commodities which are also consumed domestically; they reached such heights in April that the Government was compelled temporarily to ban the export of all edible oils and oilseeds, which in past years have been one of China's main exports.

The main obstacle, however, to the revival of exports is the obligation on the part of exporters to surrender to the Central Bank at the official rate the foreign exchange accruing from their sales. This is completely unrealistic, and out of line with the real exchange value of the Chinese dollar. It is known that the Government is at present working on a fresh scheme to encourage exports, and it is hoped that these efforts will result in something more efficacious than those which I have just described. The details of the new Government scheme are not yet known, but it appears to me that, whatever its nature, its success must largely be dependent on the inclusion of measures designed to control the domestic prices of exportable commodities. Otherwise we shall merely have a repetition of what happened at the time of the introduction of the unsuccessful bonus scheme to which I have referred above.

It is suggested that the new scheme might be accompanied by a calling-in of bank loans to holders of exportable goods, thus forcing them to realise and ensuring that whatever price benefits accruing from Government assistance, shall be used to make China's export goods saleable in the world markets and shall not be offset by ever increasing prices demanded by holders of commodities in China.

China has made little progress in the export of manufactured goods and there is danger that Japan may recapture these trades at China's expense.

Encouraging features are that the old and valuable frozen egg business with England has made a start this year, the silk business is again being subsidised by the Government, and a co-operative plan is being evolved for the tea trade. Let us hope that good results come of these labours. It is encouraging too that in all these export trades British merchants are doing everything they can to help the Chinese Government.

LABOUR & WAGES IN CHINA

The high cost of labour during the past year has had an important effect on China's economy, and has contributed in no small measure to inflation and the ills which follow.

We are now witnessing an attempt to impose advanced trade unionism on a country which is ill prepared for it. Whilst there must be full sympathy with a genuine attempt by labour to improve its standard of living, it would be foolhardy if this were done at such a rate as to ruin the economic structure of the country.

In terms of real wages, that is, the actual earnings deflated by the cost-of-living index, there is evidence that the average worker has materially improved his earnings compared with pre-war years. This increase in real wages is most striking in the lower wage groups and, since it must be remembered that the pre-war standard of living in these groups was very low, it does indicate a determination on the part of labour unions not to return to the pre-war standards. If the increase in living standards is too steep and too rapid and is not accompanied by a corresponding increase in individual output one of China's greatest assets, an abundance of cheap labour, may well become a thing of the past.

Apropos of this, the following statistics may be of interest:

In October 1945, the Chamber recommended to members that the minimum salary for the lowest paid office worker should be fixed at CN\$9,000 per month.

Later minimum recommendations were as follows:

January 1946	CN\$ 25,000 per month
March	80,000 "
June	120,000 "
January 1947	265,000 "
May	612,000 "

If we assess these actual earnings in terms of real wages, taking October 1945 as 100, we find:

January 1946	116
March	142
June	145
January 1947	164
May	167

That is to say, the lowest paid office worker is receiving in terms of real wages, 1.67 times what he received in October 1945. Comparison with pre-war earnings would be even more striking.

At the beginning of March this year the City Government made a determined effort to halt the rise in wages and general inflation. The system of cost-of-living indices was discontinued and January wages levels were frozen. This held for about two months but the inevitable flood of inflation which showed itself in a steep rise in the price of rice and edible oils made the position impossible and we are now back again in swirling currents heading for a situation in which many business houses and factories may be unable to adjust income to over-heads.

THE SHANGHAI STOCK EXCHANGE

On September 18th, 1946, a Chinese Stock Exchange, called the Shanghai Securities Exchange Ltd., was formally opened. This organisation deals at present exclusively in approved Chinese securities and Bonds on a cash and "forward" basis; "forward" transactions being for settlement of Friday of each week.

Invitations have been extended to foreign companies, operating within the territory of China whose earnings are in Chinese National Currency to apply for listing, but owing to the multiplicity of regulations and the lengthy procedures involved, and pending authorisation from the legal authorities in Hongkong, thus far no applications have been submitted. I am informed, however, that the leading firms who were formerly listed on the British Shanghai Stock Exchange are in the process of applying, and I presume it is only a matter of time before the applications are completed. In the meantime there is an unofficial, but not illegal, market in which a fairly large turnover of foreign shares takes place daily.

An interesting feature of the New Exchange is that all the Java, Sumatra and Malayan Rubber Companies quoted on the pre-war Exchange have been deemed ineligible for listing as their earnings and operations are not in China.

There are six foreign member firms (four of whom are British) of the Chinese Exchange, but until foreign shares are quoted, it is likely that they will be inactive.

TAXATION IN CHINA

The Collection of certain Direct Taxes, such as Business Tax and Stamp Tax during the year has not caused many difficulties except in regard to the interpretation of the law as affecting in certain cases liability to ad valorem stamp tax.

The points of view of the Tax collecting organs on the one hand which are understandably concerned only with revenue, and of the Legislature and the Courts of Law on the other hand, do not at present seem entirely reconciled over this important matter.

A Special Business Tax Law and Revised Business and Stamp Tax Laws have been promulgated. These revisions were made barely twelve months after the laws were last revised and at the same time so recently as to make comment on their application premature, except to say that the new Stamp Tax schedule adds further classes of documents upon which ad valorem tax is payable and adds considerably to the difficulties traders already experience in estimating precisely what their liability to this tax should be. The multiplicity of taxes on ordinary transactions which is now provided by the various business tax laws and the Stamp Tax Law cannot but be a further discouragement to trade and I would suggest also to the respect for Law engendered by the widespread breaches which must follow a general misunderstanding of their complicated provision.

The application of the Income Tax Law has been causing quite as much difficulty to merchants as was anticipated last year when consideration of the revised law then recently promulgated led me to remark upon its complicated provisions and the difficulty of its administration. Companies, whatever their nationality, whose Head offices are abroad, are being required to pay tax on their business profits at a higher rate than would be the case if their Head offices were in China. Whatever the reasons for this difference may be, and reasons have certainly been given, the irresistible conclusion to be drawn is that the provisions of the Law as it stands are too complicated for existing circumstances since I do not believe that the Chinese Government intends any discrimination against the class of merchant who thus finds himself at a disadvantage.

The collection of income tax on salaries was suspended last autumn and has not been resumed. Revisions of the law have been promised to provide adjustments in the rates and exemption limits which now, owing to the rise in living costs and consequently in wages, exempt no wage earner from liability to this tax. Notices have appeared in the press of revisions that would raise the exemption limits but by so little that the situation which caused the suspension of collections last year would be virtually unaffected. The only promulgated revision affects certain classes of the community, mainly Government servants who are now to be taxed on their basic salaries only, excluding all allowances for high cost of living.

The Business License Tax Law which is collected by the municipalities is causing some difficulties and some anomalies exist, since it is assessed on the amount of local capital, the valuation of which by all merchants and companies wherever

their Head office may be is an essential and is required for payment of this tax; although the impossibility of its valuation for the purpose of assessing the liability to income tax on business profits, or certain types of Companies, has been declared to be the reason why a difference in assessment of this class of income tax must be made. The same anomaly appears in regard to the collection of Special Excess Profits Tax which is also assessed on the amount of capital of all types of Companies.

A genuine effort is, I am convinced, being made by all members of the Chamber to comply with their liability to taxation of all kinds. Experience of the past year nevertheless confirms my observation at the last General Meeting that "the simpler the Tax Laws, the more easily can they be effectively administered": I would only add to this "and the greater will be the revenue from this source."

INSURANCE BUSINESS IN CHINA

Despite the fact that most foreign companies have filed their petitions, the Ministry of Finance has not yet issued the necessary permits authorising the companies to commence writing business. It is hoped, however, that these will be forthcoming before long.

The Foreign Insurance Associations, which for many years have guided and controlled the activities of the foreign companies, have now been dissolved and firms are free to join the Chinese Association. Briefly, the reasons for this step are that no official recognition would be given to the now defunct foreign Associations and that the ever increasing pressure being brought to bear would make it impossible for any foreign company to remain indefinitely outside the jurisdiction of the Chinese Association.

The unenviable reputation of Shanghai at the moment from the point of view of theft and pilferage losses, the shortcoming of the local fire brigade and the regulations governing remittances from China are among the many causes of continued concern to the companies. Until trade resumes some semblance of normalcy, it is impossible to forecast what the future holds for foreign insurance business, but it must be borne in mind that British companies have built for themselves a leading position in the China insurance market and no doubt they will play as important a part in the better days to come as they have in the past.

The question of all branches of Insurance has been taken up officially with the Ministry of Finance, with a view to reciprocal arrangements in China in regard to the issue of policies locally in foreign currencies, and it is hoped that these negotiations, which are to the mutual advantage of both countries, will prove successful.

Thanks to satisfactory negotiations between Mayor Wu and H. M. Consul-General, the Registration of foreign owned land with the Chinese Land Bureau appears to have been proceeding smoothly though there are still a large number of title deeds, especially in outlying districts, which have not been dealt with. The question of foreshore rights under riparian title deeds is, I regret to say, causing much trouble—many provincial authorities seeming to be quite unaware of the terms of the Sino-British Treaty of 1943 which safeguarded existing property rights.

Rents which are still officially controlled on an unrealistic basis, when compared with the increased cost of all other commodities, make the return to property owners insufficient to cover even the cost of maintenance.

These conditions are therefore no incentive to private enterprise to build and so relieve the very acute housing and office shortage which exists in Shanghai at present.

Until this is remedied the present practice of exacting "key money" from incoming tenants at a fantastic price, despite all official efforts to make it illegal, will continue. All attempts by property owners to obtain legislation to link rentals to the Cost of Living Index have so far been unsuccessful.

The prosperity of Shanghai has been closely associated with real estate in the past, as properties were easily transferred in a simple and expeditious manner as security against bank loans. Rentals at that time more than covered interest charges. It is hoped that the Authorities will reconsider this matter of rentals so that once again property, as security, may become an attractive proposition and so permit loans to be obtained for new building which is so necessary to overcome the present over-crowding.

CONDITIONS OF SHIPPING

The position of foreign flag shipping remains as described in my speech last year, namely, that it is still excluded from China's Coastal and Inland water trades. The future is obscure. The Chinese counter-draft of the Sino-British Treaty is, we hear, being "urgently studied" by Mr. Bevin, and it is to be hoped that negotiations will result in some relaxation of the present rigid exclusionist policy. A modification could, I feel, only react, on a long view, to the mutual benefit of both countries.

In the meantime, the general trade depression which at present afflicts China as a result of civil war, dislocation of hinterland communications, and currency inflation, has reacted as seriously on the local shipping industry as on business in general. Cargoes are short, expenditure and overheads ever increasingly heavy, and ship-owners who can make both ends meet under these conditions can be accounted fortunate.

As regards ocean shipping, the general dearth of exports, coupled with the serious limitation on imports imposed by the November regulations, continues adversely to affect freight earnings to and from China, which will become even more apparent with the cessation of the hitherto large U.N.R.R.A. shipments.

Both Chinwangtao and Tsingtao were temporarily closed to foreign shipping during the year, apparently for political reasons, but urgent representations, which had the full support of this Chamber, to the effect that such closure constituted an additional and gratuitous obstacle to the dwindling export trade of China, were at least partially contributory towards the subsequent re-opening of these ports. Unfortunately, Tsingtao was again closed last April, and still continues so.

The Chinese Government has not seen its way to re-opening Hankow to ocean going vessels, a fact which has reacted against the best interests of Central China's import and export trades.

As regards port conditions in Shanghai generally, praiseworthy efforts on the part of the Civic Authorities to clean up the pilferage racket have, with the co-operation of the Shipping and Wharf Companies, met with some degree of success. The practice of extortionate handling charges, though perhaps less rampant than formerly, I am afraid still flourishes.

AIR TRANSPORT

The development of Air Transport over the past year has been very gratifying to travellers in China as the inadequacy of river and land transportation has made travel by air imperative in many cases, but the number of accidents which occurred last winter shows that there are still many improvements necessary, especially in air ports, landing facilities and the ancillary services.

Air travel has been extremely useful to business men wishing to travel between Shanghai and Tientsin, where rail and sea communications have been most difficult. In some cases, it has even been necessary to travel via Hongkong.

We are all looking forward to the time when the Sino-British Air Treaty has been signed and ratified and the British Overseas Airways Corporation will be able to extend its services to China.

TELE-COMMUNICATIONS IN CHINA

There have been many complaints regarding the present wireless facilities, both domestic and foreign, which have not yet regained their pre-war standard, and it is hoped that the negotiations by the various Cable Companies for the re-opening of their cable service, particularly with Europe, will not be long delayed, as it has been established that cables are complementary to wireless services and very essential to accurate and continuous communication.

CHINA'S RAILWAYS

The Chinese railways, insufficient even in pre-war days, have suffered from ten years of war, civil disturbance and neglect. The Shanghai-Nanking and the Shanghai-Hankow Railways have maintained regular and valuable services since the end of the war. The Canton-Hankow Railway has been kept open for nearly a year, the Nanchang-Kiu-kiang Railway has recently been re-opened and good progress in the re-construction of the Chekiang-Kiangsi Railway is reported, but the rehabilitation of the Tientsin-Pukow the Peking-Hankow and the Tsingtao-Tsinan Railways, in fact, of practically all the railways north of the Yangtze, has suffered throughout the year from civil war. In March of this year, 11,626 km. of railways in China were reported as in operation. It is distressing to hear that this length has now been reduced by 300 km. south of the Great Wall and by more than 1,200 km. north of the Great Wall.

The railway situation continues to cause anxiety not only to British merchants because of the loss of the market for railway materials and equipment, but also to the holders of Chinese railway bonds. The latter continue to hope that the Chinese Government will in due course evolve a scheme for dealing with the railway indebtedness. Until this is done, the steady flow, under normal commercial arrangements, of materials, equipment and finance cannot be recommended, and normal railway development cannot be expected.

CHINESE GOVERNMENT MONOPOLIES

A little over a year ago the President of the Executive Yuan, who was then Dr. Soong, said that it was not Government policy to retain its monopolistic companies. This statement was received with enthusiasm by Chinese and foreigners alike. Nevertheless state owned and operated enterprises such as the Central Trust, China Silk Corporation, China Textile Development Corporation and the China Petroleum Corporation still continue today. Under current circumstances it is accepted that the Chinese Government must maintain official organisations for inter-state barter agreements, but where State enterprise competes directly with private trading such activities are highly detrimental to ordinary commercial interests of whatever nationality.

The Central Trust has done much to stimulate China's domestic production of exportable commodities, for which full credit must be given, but it cannot be overlooked that the effect of its purchase of commodities in China at local prices when married to buying prices abroad is to create a situation which means that the Central Trust is operating at exchange rates not available to private exporters who must do business at the official rate available through

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the Central Bank of China. This policy is no doubt dictated by the urgent need for foreign exchange but on a long view it will probably serve to alienate those who desire to engage in reciprocal trade with China and eventually to restrict the volume of international trading.

BRITISH TRADE MISSION

The United Kingdom Trade Mission to China visited Shanghai in October 1946 and we were happy to see them come. During their stay in Shanghai and tour of the whole country they were able to impress on our Chinese friends the seriousness with which China trade is considered in England and conversely they were able to learn from their own observations what conditions are like out here. Many of us, Chinese and British alike, await the publication of their report with a lively interest.

We shall always remain grateful to H.M. Government for having shown its deep interest in China by sending the Mission on its journey.

GENERAL OUTLOOK

In conclusion I must say a few words on the general outlook, although fortunately by precedent this review does not extend to politics. At our last Annual Meeting I concluded my remarks by saying that I hoped "that wise counsel will prevail and peace be firmly established in a united China."

These hopes still remain to be fulfilled and I fear that unfulfilled hope has been the keynote of this report.

In spite of the gallant efforts of our esteemed Mayor Dr. K. C. Wu and his able colleagues, economic conditions in Shanghai have deteriorated and its problems have multiplied. Further afield things are still worse. In Taiwan there have been serious disturbances which I am glad to record appear to have died down. But a large and important section of North China and Manchuria is in the throes of civil war which has interrupted or destroyed many of the normal channels of transportation and has brought misery, poverty and distress to millions of innocent people. Civil war and economic stagnation appear to be combined in an unholy partnership.

Happily, perhaps, it is not given to us to peer far into the future and the best of sinologies cannot decipher with certainty the Chinese characters written on the wall. We can agree in hoping devoutly, for our own sakes, but more especially for the Chinese people, that the dawn of peace and the return of prosperity will not be long delayed. As a merchant I have faith in China and in the ability and determination of its citizens to continue to trade under conditions which would drive a less resolute, ingenious and philosophical people to despair.

Free Convertibility of Sterling

The possible effects of the free convertibility of sterling subsequent to July 15th continues here to be the main topic of conversation among financial circles. The return of sterling to free transferability (as far as current transactions are concerned) will influence also the local unofficial exchange rates although for some time to come no particular fluctuation can be expected. Eventually, free and unofficial rates all over the world will tend to move more in line with the official rate.

For the first few weeks after July 15th, there will be no unusual selling of sterling anywhere in the free or black exchange markets, and the rate of free sterling in New York will remain most probably around the present level (US\$3.10). Only by the end of 1947 effects of the new financial epoch will be felt and then it will be easier to foresee the tendency of the relation between £ and US\$.

Clear thinking and experienced merchants and financiers here are agreed that the change of £ into a hard currency can only result in the gradual appreciation of international £ valuations. Some astute merchants here appear to be convinced that a free market rate in New York of US\$3.50 can be predicted for autumn of this year.

The Governments of U.K., the Dominions and the U.S.A. are in close understanding as regards the abolition of unofficial exchange markets and the return to unambiguous, logical, trade and industry promoting international exchange rates. The joint determination of the British Commonwealth of Nations and the United States to implement the Bretton Woods Agreement, which called for stable international exchange rates, inspires confidence in the eventual disappearance of a discount on sterling in open markets.

The US\$ Market

Notes and drafts were in strong demand which firmed the rate up; notes sold between \$473/484, large drafts \$475/480 per US\$100. Transactions in the T.T. market were moderate with more sellers coming out. Rates remained almost unchanged around \$499/502, most business having been done at 500.

Sterling in New York's free market was slightly weaker, fluctuating between US\$310/313. The New York free market price of last week corresponds to a local price of HK\$512/516 per US\$100 T.T. New York. Accordingly, the local unofficial market quoted sterling higher than it was the case in New York. The local price of HK\$500 corresponds to a cross rate in New York of US\$320 per £100 on the free market.

The New York free sterling market quotes three sterling rates; for pound notes, for transferable sterling, and for £ securities. The first two rates are usually on a level, the £ securities rate is about 15 to 25 US cents cheaper. Buyers of £ securities, like war bonds, were able to purchase a few months ago such sterling at about US\$2.80 to 2.90. Recently, with the improvement of the transferable sterling rate the £ securities rate also appreciated.

Buyers of £ securities regard their holdings in British bonds, purchased US\$1.10 or 1.20 per £ under the official price, as one of the luckiest and safest investments of the post-war period.

The gold market launched a rumour which, if it would turn out true, could cause the local US\$ rate to advance. The problem at the moment, when gold prices in China are firm, is where to buy new gold supplies, and the possibility of transacting some business in Manila has been ventilated here. Direct transports of gold from Manila to Macao could of course be effected but the unsolved question remains whether, in the face of International Monetary Fund opposition, the Philippine Govt. will dare to lead itself to gold smuggling which, in fact, the sale of gold in Manila destined for Macao would amount to.

Commercial Banks' Business

The whole year of 1946 and the earlier months of 1947 were regarded by local commercial banks as very satisfactory. Profits made were in excess of pre-war earnings. The very strong demand for imported goods was the main source for the active business of bankers here. The financing of gold imports proved, at least for a good number of commercial banks, to be the comparatively greatest source of profits during the latter part of 1946 and early months of 1947.

Current business of banks is slack as a consequence of much decreased merchant demand and the suspension of gold imports. It appears that conditions of most commercial banks will not improve during the next few months. The silver trade has also come to a temporary stop as far as Hongkong's main customer, India, is concerned. The deterioration of general conditions in China may further reduce current business. American and Netherlands banks in particular do not look forward with optimism.

Gold Markets

Erratic and excited sessions featured last week's (July 1-5) market. The demand coming from China's gold merchants pushed up prices here to the record of \$320, a price not seen here for many months. The lowest quotation of the week was \$297, and the week's average \$310 per tael.

The progressive inflation in China has, once again, resulted in a gold rush in major cities. Buyers in the black markets of Canton, Hankow, Shanghai etc. were bidding as high as US\$55 to 60 per troy oz., compared to the Hongkong average gold cross price of US\$51/52 per oz. During one or two days, prices in Hankow were even much higher and, as must be expected when doing business on black market exchanges, rates within China were greatly at variance.

Export of gold from here to China was again regarded as a profitable proposition and the local gold market believes that the tendency in China will remain firm. The local price is determined by the Canton, Shanghai, Hankow and minor Chinese gold exchanges. The ups and downs of the black gold quotations in China are influenced by political developments, by speculative manoeuvres and the speed of inflation.

The Chinese people, provided that they earn more than they spend, have come to look upon gold as one of the safest means to invest money and as long as inflation and insecurity in China continue the average investor will stick to gold. During the time when the Chinese Govt provided gold on the open market, the investing public was quite satisfied and appreciated the gold policy of Dr Soong. Now, when gold transactions are outlawed, the people must resort to the black market in their legitimate desire to preserve their savings. Although at present they overpay gold in terms of US\$, they have no choice, and it is better to tuck away one's big or small fortune in gold at a very high US\$ cross rate than to allow all the swelling piculs of Chinese money melt away until the last billion has gone down the drain.

Last week's rumour about the come-back of China's financial champion and wizard, Dr T. V. Soong, had the effect of temporarily reducing the excessive gold prices in China and, accordingly, also here. However, the better informed Chinese and foreign observers in Shanghai discredit the come-back report.

Another rumour had it that the Central Bank of China would soon permit the public sale of ornamental gold at CN\$1.9 million per oz., i.e. at the current Shanghai remittance rate approx. HK\$200 per oz., compared to the official HK\$ equivalent buying price of the Central Bank of China of HK\$53 (which is only 20 percent of the current gold price in Hongkong). The current price in Shanghai on the black market is around CN\$2½ million per oz. At the local Shanghai T.T. rate, the price per troy ounce of gold in Shanghai should be CN\$2.3 million.

It is, therefore, rather improbable that the Central Bank will permit goldshops in Shanghai to sell gold

at a heavy discount compared to the black market price. Goldshops would not sell their own hoards and the Central Bank could not well be expected to supply gold bars for the purpose of manufacturing it into "ornamental" gold which, in China, means only the crude bending of fine gold into rings and chains.

The Chinese Money Market

After the heavy slump suffered by the CNS during the last week of June, some temporary firmness was displayed last week on the local spot and forward market; the tendency is of course weak and the remittance rates from here to the interior of China are expected to drop more during the current month. The week's average Shanghai T.T. and Canton T.T. rates were respectively HK\$110 and \$142 for CN\$1 million. The domestic remittance rates, esp. between Shanghai and Canton, fluctuated wildly and widely, the Shanghai dollar having been discounted in Canton from 20 to 30 percent.

Considerable amounts of HK\$ are regularly taken out of the Colony mostly by Kwangtung merchants who hoard our money. The Hongkong dollar is used in large parts of South China as the medium for all commercial transactions and actual payments in HK\$ notes are often stipulated by sellers of commodities and produce. Banks and exchange shops in Canton and all major South China cities are well provided with HK\$.

The rate of unofficial interest in Shanghai is between 25 to 30 percent per month, another proof for the absolute loss of confidence on the part of the population in the even short-term stability of CNS. The official rate of interest for loans from commercial banks is now about 18 percent per month, however this rate is fictitious as hardly any merchants are able to secure bank loans at such rate. Loans are granted by Govt banks to Govt organisations at the legal rate of interest, and recently a loan of CN\$10 billion was extended by the Central Bank to the Shanghai Municipality. In such case the question of interest is of minor importance; the main problem is the depreciation of CNS which is so fast that at the time of the expiry of the loan, the debtor, i.e. the Shanghai Municipality, will, in terms of gold or foreign exchange, pay back only a fraction of what was obtained.

Silver Markets

New York and London were quoting higher prices under the influence of larger Mexican demand, but the local silver market remained dead and prices slumped further. The silver dollar sold at \$2, the 20 cents coin at \$1.50, and the fine ounce about \$2.60/2.70. Hongkong's silver market will remain down and out for a good time.

Pound Sterling Notes

Sellers were again depressing the rate in a market which has lost confidence in the return of a better price. £1 and 10/- notes were bought by exchange shops between \$12.80 to 13, and the selling price was around \$13.10 to 13.20. The Australian pound notes sell at about \$12.50, i.e. at about their official exchange rate. The open market difference between English and Australian pound notes is insignificant.

Pound notes of denominations higher than £1, i.e. 5, 10, 20, 100, have found little interest in the local banknote market. Recently, the price was around \$40 for a £10 note, but last week the price dropped considerably and exchange shops and native banks bought larger denomination pound notes only at \$15/16 (per £10) and sold at \$17/18. The price corresponds to about 10 percent of the official rate (\$16 per £1). A number of exchange shops do no longer deal in larger denomination notes on account of much reduced interest in this counter.

Bank Note Markets

Indochina piastres are in the doldrums, moving between \$10.75 to 11.50. Nica guilders have recovered slightly to approx \$21 at which price, provided that the crisis in Java is not allowed to linger on, they should be taken off the market. Siamese baht notes were neglected, rates averaged \$19 (per 100 baht).

Military yen notes were transacted by a few exchange shops at \$300 more or less for one million yen. Whatever the mysterious reasons of the buyers of such attractive but really worthless money, the fact remains that some sales are put through every day.

The Taiwan Dollar

The Bank of Taiwan has revised the exchange rate from CN\$35 to CN\$65 to one Taiwan dollar, to be effective as from July 3. The appreciation of the Taiwan dollar in terms of CN\$ amounts to 85½ percent. The rate is tentative only; a further revision is anticipated. The public in Taiwan has been expecting a rate of CN\$100 for T\$1.

The local market is short of T\$. The Chinese Govt banks here (Bank of China, Farmers Banks, Bank of Communications) cannot sell any T\$ drafts and one Govt bank advises customers to buy T\$ in the so-called open market. Local exchange shops, which are short of T\$, quote between HK\$1.50 to 2 per T\$100. Before the official devaluation of CN\$ in terms of T\$, the local average price was 70 HK cents per T\$100.

A local Chinese Govt bank, when asked for advice regarding the purchase of T\$ either for purpose of travelling to the Island or for payment of goods ordered from Taiwan, suggests that CN\$10,000 bills be purchased in the local market and then carried or mailed to Taiwan. Such procedure appears almost medieval but such are the times.

Secret Service in Hongkong

Since the reoccupation of the Colony, Chinese secret service men have taken up more or less stable domicile in Hongkong. Many officials of organisations attached to the Chinese S.S. (secret service of either the National Defence Council or the Kuomintang) have come under suspicion of corrupt practices, particularly so those whose job it was to deal with Japanese collaborationists. A number of leading S.S. men have been duly punished by their superiors. The feats of S.S. men during the earlier part of 1946 are still talked about with much relish by those who contrived to avoid the payment of contributions to this or that worthy cause.

However, during recent months a new swarm of S.S. men have arrived here; some refer proudly to their occupation as the "Chinese F.B.I."—meaning the respectable and public U.S. Dept of Justice Federal Bureau of Investigation. Unfortunately, for the Chinese residents or recent immigrants, the Chinese secret service is not entirely up to the high level of integrity, not to mention efficiency, of America's F.B.I. Flight capitalists and political "malcontents" are being supervised by S.S. men. That Hongkong is a British Colony has been obviously lost sight of by the organisers of the S.S. expeditions into Hongkong. The people who are visited by S.S. men, coming under assorted categories of economic and political menaces to the Chinese Govt, do not feel inclined to complain publicly about these extra-legal molestations by alien intelligence agents. Privately, however, a veritable chronicle scandaleuse has been revealed.

OFFICIAL AND FREE MARKET CANADIAN DOLLAR

The Canadian exchange position has been a subject of increasing inquiry in America in recent weeks. The discount at which the unofficial or "free" Canadian dollar has been selling under the "official" dollar (which was raised last July to parity with the American dollar) widened during April to over 10 per cent. At the same time it has become generally known that substantial inroads were being made into Canada's U. S. dollar resources. In the public mind these two developments naturally have become associated. There have been rumors that a new devaluation of the Canadian dollar may be impending. The subject is one of obvious concern in the United States, for Canada is by far the largest buyer of American goods and about \$5 billion of American funds are invested there, including some \$800 million placed in Canadian securities and direct investments during the war.

The "Free" Market of New York

The first point on which people who are interested in the Canadian dollar should have a clear understanding is that the discount currently quoted applies only in the unofficial or "free" market for Canadian funds, and that this market is a relatively narrow one. It exists because Canadian dollars owned under certain circumstances or derived from certain kinds of transactions cannot be converted under Canadian regulations into U.S. funds through official channels at the official rate. However, they can be sold and bought by non-residents. In essence the market is one in which one non-resident may take over another's holdings of inconvertible funds. The total of the funds thus dealt in is seldom large, and small offerings or bids may sway the price considerably. As for the part the unofficial market plays in total transactions in Canadian dollars, it has been estimated that it accounted for only about 3 per cent of Canada's international transactions during the past three years.

The supply of Canadian dollars in the unofficial market comes from (1) bank balances held by non-residents of Canada at the time when foreign exchange control was introduced in September 1939, (2) sales of Canadian securities bought for cash since

1940 and registered with the Foreign Exchange Control Board, (3) sales of Canadian real estate, (4) liquidation of American direct investments, and (5) proceeds from maturing securities payable in Canadian funds.

Canadian dollars acquired through the unofficial market—usually through the intermediary of an American bank—may be used in Canada only for specified transactions. These include (1) purchase of Canadian securities, (2) purchase of Canadian real estate, (3) making loans and direct investments in Canadian businesses. They may also be used by tourists.

"Inconvertible Dollars"

These limited-purpose or "inconvertible" dollars therefore cannot be used to pay for exports from Canada. Canadian exporters are required to obtain payment in U.S. dollars which must be turned over to the Foreign Exchange Control Board. Similarly, Canadian residents must surrender to the Board all U.S. dollars received from services of all types and from investments in the United States obtained either as income or through the sale of securities.

On the other hand, the Exchange Board provides dollars at official rates out of official reserves for all current transactions. Hence Canadian dollar interest or dividend checks will, if presented to a Canadian bank by a non-resident, be converted into U.S. dollars at par. Certain capital payments, such as payment for bond issues payable in U.S. dollars, are also made at par out of official reserves.

From 1943 to the middle of 1946, the demand for inconvertible Canadian dollars by non-residents was large enough to maintain the free market rate close to the official rate. Following the up-valuation of the dollar last July, however, the supply exceeded the demand, largely because of repatriation of U.S. capital invested in Canadian securities. This repatriation may have been induced first by profit taking, and probably has been speeded up in the past few months by concern about Canada's loss of U.S. dollars. There would seem to be a strong possibility that demand for inconvertible dollars will improve once the tourist season opens. Moreover, the discount is an inducement to Americans to make capital investments in Canada.

HONGKONG UNOFFICIAL EXCHANGE RATES (IN HK\$)

	Gold per Tael		CN\$ (per one million)						S'hai		Canton		US\$ (per 100)		(per 100)		
July	High	Low	Spot		Forward		T.T.	T.T.	Note	Draft	T.T.	I.C.\$	Guilder	Baht			
1	310	297	149	146	97	93	108	143	473	475	499	10.85	21	19.70			
2	313½	306	148½	148	100	96	109	141	475	475	500	11	20.60	19.60			
3	319½	307	157	150	115	97	112	143	481	473	500	10.80	21	19.50			
4	312½	305½	158	152	107½	101	120	142	484	480	502	10.90	21	19			
5	314½	306	146	144	100	95	109	141	480	480	500	11.30	212.30	19.30			

Canada's International Payments

The inroads into Canada's U.S. dollar reserves are occurring despite the fact that her over-all current account transactions are showing a record peacetime surplus. The official gold and U. S. dollar resources, reported at \$1,508 million at the end of 1945, declined to \$1,245 million by the end of 1946. The explanation lies in the fact that Canada's deficit in her balance of payments with the United States must be met out of her own U. S. dollar resources, while Canada's surpluses in her balance of payments with other countries up to now have been largely financed on credit, or are in funds not yet convertible into U. S. dollars.

Last year, Canadian expenditures in the U. S. were of record proportions. In the closing months of the year, Canada's imports from the United States reached an annual rate of \$1,800 million, reflecting in part the rise of prices in U. S.

Canada's Sterling Balances

While the deficit in Canada's 1946 transactions with the U. S. aggregated \$603 million, she had on the other hand a credit of \$954 million (without counting \$102 million for Mutual Aid and official relief) in her current transactions with Great Britain and other countries. There would have been no strain in Canada's current balance of payments with the United States, and hence no question about the soundness of the Canadian dollar, had all the customers of the Dominion been able to pay her in freely convertible currencies. Unlike the French franc and other Continental currencies that are under pressure because of internal complications, the pressure on the Canadian dollar stems entirely from the fact that multilateral trading and currency convertibility have not yet been sufficiently restored.

Canada's economic position probably has never been stronger. Not only did she escape wartime destruction, but there was a great expansion and diversification of productive capacity. The number of employees in manufacturing industries has nearly doubled since prewar. Moreover, the Dominion has handled her postwar transition problems as well as any country. Her cost and price structure has remained considerably below that of the United States. As a result, Canadian products in world markets are in an improved competitive position.

But the final solution of Canada's exchange problem is tied up with the extension of multilateral trading and worldwide currency convertibility. The decision of the British authorities last January making the net balance of sterling earned by Canada (and a number of other countries) on current transactions freely convertible into U. S. dollars, was a step in the right direction.

TRADING IN GOLD

The Gold and Silver Exchange Society, Hong Kong's native financial trading centre for the past 27 years, is today handling an average daily spot and forward turnover of approximately 12,000 taels of gold as well as sizeable quantities of silver, Indo-China piasters, Chinese National currency, American dollars and other bank notes and drafts.

When the Society was established in 1919 two years after the First World War, it had 250 native banks and goldshops on its membership list. The number was gradually reduced and there are at present 200 members. The Committee of the Exchange Society has decided not to admit new members. Of the 200 members, 44 are registered as proper gold smiths and authorised by the Society to cast their own gold bars.

Controlled by a Board of 21 Directors the Society conducts its transactions in two sessions daily between 9 a.m. and 12.30 p.m. and 2.30 p.m. and 5 p.m., with the exception of Saturday afternoon, Sunday and bank holidays.

The Society, which is located at Nos. 14-18, Mercer Street in the centre of the Chinese native banks area, holds one general meeting every year for the selection of 21 member banks and goldshops out of its 200 members to serve on the Board of Directors. The annual selection is held on June 15 every year and the Directors are elected on votes.

Functionaries of the Gold Exchange

The list of the Board of Directors for the current year as nominated on June 15, 1947, is as follows: Managing Director: Mr. Ho Sin-hang (Hang Seng Bank); Deputy Managing Director: Mr. Liu Yat-chui (King Fook Bank); Treasurer: Mr. Kan Shiu-ting (Hang Shing Co. Ltd.); Special Treasurers: Mr. Tung Chung-wei (Dao Heng Bank) and Mr. Chung Kwok-yan (Choy Kee Goldshop); Supervisors: Mr. Poon Po-man (Cheuk Kee Bank), Mr. Tam Ping-ki (Kung Shuen Hong), Mr. Ying Ngan-ting (Po Tak Hong) and Mr. Au Kai-chung (Yee Sang Hong); Directors: Messrs. Chung Ying-choi (Fat Cheong Bank), Cheung Cheuk-yin (Wing Kee), Ma Choi-por (Mow Cheong), Chan Ping-fung (Man Fat), Ng Kit-suen (Wing Lung), Mui Chak-ng (Lai Yuen), Kwok Cheuk-wah (Ying Suen), Kwan Yip-fai (On Tai), Ma Kam-chang (Tai Sang), Leung Kwai-ye (Kwong On), Fung Yau-king (Wing Heng) and Mak King-wan (Jih Pao).

Apart from electing 21 members of the Board of Directors, the annual general meeting also selects four reserve directors. The tenure of the members on the Board is one year, but they are always entitled to re-election with the exception of the Managing

Director and the Treasurer who are only permitted to hold the same post for two consecutive years.

The entrance fee is \$500 and the annual subscription \$20. Member native banks and goldshops, which put their own gold bars into circulation on the market, pay an additional \$5,000 deposit to the Society. A seat in the Society is now worth between \$10,000 and \$20,000.

Trading Usages

Prior to circulating their gold bars on the market, they must submit to the Society the bars for examination. The Society, when satisfied that the gold bars contain 99 per cent gold, stamps every approved bar put out by its members. In other words, the Society guarantees the percentage of gold in the bars which bear its stamp.

The object of the establishment of the Gold and Silver Exchange Society was not to make profits but to provide members with a trading centre and other financial facilities. The Society itself has no capital and its expenses are derived from commissions made from transactions through the Society. For every \$100 transaction the Society charges five cents commission.

The member banks and goldshops are entitled to send eight representatives each to the premises of the Society for conducting daily transactions. The Society issues to each appointed representative a finger ring which is used as a badge for admission to the premises of the Society.

Of the eight representatives of each member, four are allowed to trade and the other four are runners (attending to telephone calls and fetching cash, gold and other transactable notes between the Society and the banks or goldshops). The Society issues to trading representatives one gold finger ring each and to runners a silver ring.

The member banks and goldshops operate approximately 130 telephones in the Society. Outside brokers, who do not wear either of the rings issued by the Society are barred from entering the Society's premises. A husky Indian watchman, on guard at the entrance, will see to it that no non-member brokers gain entrance.

Turnover and Speculation

The biggest and most favourite item transacted by members in the Society either on spot or future is gold in bars and coins, followed by Chinese National dollars and piasters. The Society also deals in US\$, silver and sterling spot transactions, but the amount so far has been insignificant when compared with the volume of gold transaction.

According to official sources which are, however, reluctant to disclose the exact amount of business done by its members, the Society's average monthly turnover in gold bars and coins for spot is about 100,000 taels, and for futures approximately 300,000 taels; in piasters (spot) it aggregates roughly 5,000,000, while in Chinese money (spot and future) it aggregates between three and four billion dollars.

However, well-informed brokers estimate the average daily turnover of the Society as follows: Gold bars and coins for spot about 3,000 taels and for futures about 50,000 taels. The

largest daily turnover recorded in June was said to be 6,000 taels for spot and 90,000 taels for futures.

The daily turnover of CN\$ for spot and futures is "incalculable" in the opinion of well-informed brokers. The average business in piaster transactions per day, according to brokers, amounts to about 200,000 for spot and about 1,600,000 for futures.

Gold Holdings and Dealings

The present gold holdings in the hands of the Society's member banks and goldshops as well as in the possession of private brokers and non-member banks and goldshops are estimated to be around 300,000 taels. Two months ago, several leading banks placed large orders for gold from Mexico. Some of the orders have already been filled and the outstanding quantity yet to be shipped here is said to be over 100,000 taels.

Market circles conservatively estimate that monthly about 80-90,000 taels of gold in bars and coins have been smuggled out of the Colony to Canton, Hankow, Kunming, Shanghai, Peiping, Tientsin and other cities in China.

The following firms are among the leading operators in gold: Hang Sang Bank, Dao Heng Bank, Tai Cheong Bank, Wing Lung Bank, King Fook Bank and several other registered native banks and goldshops.

Other prominent gold operators here are Chinese banks (not registered as members with the Gold Exchange), private brokers both European and Chinese, and several compradores of European and American banks in Hong Kong.

A very conspicuous buyer in the gold market, outside the Exchange, has been a Chinese bank, with premises in China Building, which usually turned over lots of 10,000 taels and over by using the services of a native bank, duly registered with the Exchange Society.

Wireless Services

Most operators in the gold market are well informed as regards the fluctuations of the rates in various Chinese

Vegetable Oil Markets

Tung oil sold last week at the native exchange at about \$122/125 per picul but at the opening of the current week prices slumped to well under \$118. New York is taking little oil only off the market and prices paid were between 20 to 21½ US cents per pound. The China Vegetable Oil Corp. still keeps very large stocks in the U.S., estimated at far over 10,000 tons, hoping for improved quotations which, judging from general trends of produce and commodity markets in America, are unlikely to return. The nominal New York quotation on July 7 was US\$0.23½ per lb, f.o.b. US ports, in tank cars. Prior to the outbreak of the war, Dec. 8, 1941, tung oil quoted here \$190 per picul; at the beginning of this year prices moved around \$200/220. During the earlier part of the current week sales of tung oil in the native vegetable oil market have been put through at only \$113/114 per picul.

Last week's average prices per picul were: Sesamum seed oil \$270, Teased oil \$175, Peanut oil \$220, Coconut oil \$122, Aniseed oil \$280, Cassia oil \$1,000. New York prices remained unchanged, most prices were marked "nominal." Cassia oil, per lb, fob New York, US\$ 3.25/85, Aniseed oil 70 to 80 US cents.

cities, particularly Shanghai, Canton, Hankow and Tientsin. Market prices are often received here ten times a day. Wireless services, set up both in China and in Hong Kong, are attending to these commercial and financial interests, although no permit has been secured by either the Chinese or the British authorities for the operation of such wireless reporting.

The existence of unregistered wireless operators, both receivers and senders, is well-known to the General Post Office here and a number of cases have been reported in the press when successful raids on premises of illicit radio operators were conducted.

It is of course essential for the operation of a gold market here that market conditions and ever-changing prices in China be reported without any loss of time. The government telegraphs and radio services would be able to cope with the great demand of banks, brokers and goldsmiths for news and prices but the obstacle to the operation of the legal telecommunication service is the fact that gold transactions are outlawed in China and the position in Hong Kong remains unclear. The training enjoyed by thousands of young Chinese during the war years in radio telegraphy (under American instructors and with American equipment) has after the war developed into a very useful occupation which is being utilised for what it is worth.

COMMERCIAL MARKETS

South China Trade Controls

The South China Import and Export Control Board was formally inaugurated in Canton on June 30, in which participate the Import Control Board of China, the Export Development Board, Chinese Customs, the Kwangtung Provincial Government, the Joint Office of the Four Government Banks, the Canton-Hankow Railway Administration, the Canton Bankers' Association and the Canton Chamber of Commerce. The new Board was formed for the purpose of replacing the former Kwangtung Temporary Import and Export Control Board.

The new Board controls the eight districts of Canton, Kowloon, Wuchow, Kongmoon, Swatow, Hoikow, Tsamkong and Wanpak. The Board has announced the revised foreign exchange quotas for the importation of goods under A and B Schedules.

For the importation of A Schedule goods, the Board has placed a sum of US\$100,000 per month at the disposal of its branch offices in the eight districts to be allocated to the registered importers for such articles.

For imports under Schedule B, the Board has appropriated a sum of US\$-1,095,931 to be distributed to the registered import firms in the eight districts for the second quarter of the year between May and July.

Following is the table of the foreign exchange quotas made available by the Board for the eight districts under its control:

District	No. of Reg. Importers	Percentage	Quota
Canton	960	51.6%	US\$1,600
Kowloon	22	1.3%	1,300
Wuchow	96	5.2%	5,200
Kongmoon	92	4.4%	4,400
Swatow	490	26.4%	26,400
Hoikow	22	1.3%	1,300
Tsamkong	163	8.8%	8,800
Wanpak	17	1.0%	1,000
Total	1,862	100 %	US\$100,000

Of the 960 registered importers in Canton and 490 in Swatow, only 573 and 126, respectively, are licensed for importing A Schedule goods. Therefore, the Board's foreign exchange quotas will enable each A Schedule importer in Canton to obtain only about US\$90 per month and the Swatow firms US\$208 each.

As the foreign exchange allotment for South China is far from the actual requirement, the revised quota appropriation will undoubtedly bring the import business in the eight districts to an almost complete standstill.

Chinese exporters here believe that the whole monthly foreign exchange quota for South China under A Schedule, that is US\$100,000, is perhaps sufficient for the monthly requirement of one of the big importers in Canton.

(Compare our previous issue, page 134, regarding trade between Hongkong & South China).

MOTOR CARS AND TRUCKS IN HONGKONG

By the end of May 1947 a total of 5,182 motor vehicles were registered in Hongkong, of which amount 3,079 were motor cars, 115 buses, 1,709 trucks and 279 motor cycles.

Against March 31, 1947, i.e. within 2 months, 828 new cars and trucks have been imported and registered here. The position was reviewed in detail in our issue of April 16, page 179.

During the month of May a total of 309 motor vehicles were registered here as follow:—186 private cars, 56 public hire cars and taxis, 8 buses, 22 public commercial lorries, 23 private lorries, 9 cars for Government, and 5 other motor vehicles. The most popular makes here, as regards May registrations, were:—Studebaker with 35 cars & trucks, Ford U.K., Canadian and U.S. 43, Dodge 41, Hillman 21, Chevrolet 16, Plymouth 15. Altogether 35 British and American makes of cars and trucks were imported during May.

Hongkong is very well supplied with private, hire cars, trucks and other motor vehicles. The relatively small city cannot cope with the heavy motor traffic and congestion in the business district has now developed into a serious problem. Compared to the earlier part of 1946, when hardly any private or taxi cars were seen in the streets of Hongkong, the position today is truly amazing.

Almost all cars and trucks are brand new and there is no city in the world which can boast of finer taxis than Hongkong. The latest models of American and British car manufacture are displayed in the Colony and the glut in the motor car market has caused, some time ago, the lifting of the previous retail price control in respect of motor vehicles. Most cars and trucks are selling here below the former controlled price of Hongkong Govt.

A very large number of Hongkong's cars have been bought with foreign exchange obtained in the unofficial market, i.e. they had to be purchased at a premium compared to those cars which could be imported against payment in sterling or US\$ at the official rate of exchange.

Following are detailed figures for all motor vehicles registered in Hongkong as at May 31, 1947:—

Motor Cycles	279
Private Cars	2635
Taxicabs	224
Public Hire Cars	220
Motor Buses	115
Public Commercial Lorries	1174
Private Commercial Lorries	352
Government Lorries	144
Police Department Lorries	39
Total	5182

HONGKONG COMPANY REPORTS

INDO-CHINA STEAM NAVIGATION CO. LTD.

The annual ordinary meeting of the Company was held on June 27, when the Chairman, the Hon. Mr D. F. Landale addressed the shareholders as follows:—

General Conditions in Shipping

1946 was a broken year in so far as the operation of British shipping was concerned. In general Government requisition ceased as voyages were completed after March 2, 1946, and though most of our reduced fleet had returned to commercial service on the Company's account by the middle of the year considerable work was required to restore vessels to normal condition and our programme to cover this is still in progress. We are also taking all possible steps to modernise existing ships and adapt recently purchased tonnage to suit the conditions under which we operate.

The Chairman, in his speech last December, mentioned the disposal of certain obsolete ships and the purchase of tonnage ex the Government Disposal Schemes. Since the last meeting we have acquired three further ships; the Empire Wye (6,446 tons), Empire Fraser (1,931 tons), Empire Witham (1,919 tons). Our fleet now amounts to a total of 48,138 tons gross, with an average age of about 10½ years.

So far as the operation of the fleet is concerned the year 1946 was characterised not only by the general problems of transition from war to peace which are, of course, world-wide, but also the particular difficulties inherent in a newly liberated area. These not only affect us in our base port of Hongkong, but throughout the waters in which we operate. The natural flow of trade has been dislocated by currency and import restrictions, labour difficulties and political troubles so that it was not possible to achieve that regularity of liner services which are normally provided by a Company such as ours, and which we hope, in due course, to achieve again. These conditions affect us all from the Floating Staff, who may suffer the chagrin of being delayed in congested ports far from home, to the passenger and shipper, but it is to be hoped that we shall soon be able to function normally.

China Coast & River Shipping

The situation in regard to operation on the China Coast and rivers remains unchanged and the new Navigation Laws of China still preclude us from carrying cargo and passengers on the rivers and between coastal ports. The activities of the fleet have, therefore, been largely concentrated on the external lines which are not beset by these complications.

Having regard to these difficulties the result of the year's working can be considered very satisfactory and a credit to the Staff both afloat and ashore, including our Agents throughout the area. Our overheads and operating costs remain at a very high level and there is as yet very little sign of much reduction in the cost of repairs and other essential services to the ship owner.

Hongkong Prospects

Before the war Hongkong was regarded as a port which offered particularly cheap and efficient services in this connection, and while I am glad to say there are signs that the facilities in this Colony are returning to a state of pre-war efficiency, unfortunately costs are still abnormally high. It is to be hoped that circumstances will bring about substantial reductions in the future because, as one authority so aptly described Hongkong: "The port is the Colony and the Colony is the port." The cost and efficiency of its services to shipping are therefore of vital importance to the future prosperity of the Colony.

It is satisfactory to hear that Japan will shortly be re-opened to commercial trade and it is to be hoped that British shipping will carry an appropriate share of that country's exports and imports which before the war was practically denied to us by subsidised Japanese competition.

Pensions for Staff

Before I turn to the Accounts I must refer to the Pension arrangements for the Floating Staff. As you may know, the existing Pension Scheme has been in force since the end of the first world war, and it is now considered to be unsuitable and inadequate to meet changed conditions. A revised scheme had been under consideration for some months and the details will very shortly be made known to those concerned, but I can mention now that in addition to a pension directly related to retiring salary, a Provident Fund will also be introduced which will ensure a lump sum being available on retirement. The Directors have approved the allocation of £10,000 out of 1946 revenue as a starting grant to this Fund.

Accounts & Dividends

In the Accounts now before you, you will note in the Profit and Loss Account that £40,000 has been allocated to Special Repairs and Renewals Account to cover the work on which I have already commented, £30,000 to Reserve for Claims and Taxation is a sum set aside to deal not only with taxation but certain outstanding contingencies which result from the war. In the Appropriation Account it is proposed to transfer £60,000 to General Reserve

and £30,000 to Ships Replacement Reserve. This latter account is required in connection with adjustment of initial values of new tonnage so that they may be taken into the books at more economic figures. In future, therefore, we hope we shall not be embarrassed by too heavy an annual charge for depreciation.

This principle has been applied to our recent purchases of new tonnage, and surpluses over book values of obsolete tonnage sold have been credited to this account. Your Board consider this a prudent practice which is being followed by many other liner Companies at the present time. £22,674 is to be transferred to the Underwriting Reserve which exists to cover claims within our insurance franchise.

After providing for the proposed dividends of 6 per cent on cumulative preferred ordinary shares, and a 10 per cent bonus on the deferred ordinary shares amounting in total to £64,485, there remains a balance of £24,891 to be carried forward.

Balance Sheet

Turning to the balance sheet, the value of the Fleet is slightly increased at £552,000, the Investments stand at £2,168,338 which is slightly below market value, and current assets at £347,392. With the proposed appropriation General Reserve is brought up to £500,000, Ships Replacement Reserve to £811,582, Special Repairs and Renewals £203,700, Underwriting Reserve to £100,000, Special Repairs and Renewals Reserve will be reduced as the Fleet is re-established on a normal peacetime footing and Ships Replacement Reserve will be required over the next few years to adjust the values of new tonnage which we hope to build or perhaps acquire. It will be noted that sundry creditors is rather larger than usual at £739,397, which is accounted for by sums which were due at the close of last year to Ministry of Transport in connection with Government tonnage managed or allocated to us for operation on our normal liner trades.

In making the recommendations set out in their report, your Directors have carefully considered the commitments which will face the Company during the next few years in the restoration of its interests and the high cost of new tonnage which will be required to maintain its services. They feel that it would be imprudent, in the interests of the shareholders, to recommend the payment of larger dividends at the present time. It is to be hoped that by following a conservative financial policy it may be possible to maintain stability in dividend payments over the years to come.

Board of Directors:—the Hon. Mr. D. F. Landale (Chairman), the Hon. Mr. M. K. Lo, Mr. S. T. Williamson, Mr. N. O. C. Marsh (Director).

THE DAIRY FARM, ICE & COLD STORAGE CO. LTD.

The 47th annual ordinary meeting was held on June 26, when Accounts for the year 1946 were submitted to the shareholders. The profit on Working Account was \$3,288,792, the net profit \$3,093,999. Added to the 1946 profit was the 1945 balance of \$444,291, making \$3,538,290 which amount was appropriated as follows:—\$2.50 dividend and \$1.50 bonus per share on 293,335 shares making a total of \$1,173,340; Provision for Taxation and Contingencies \$650,000; Chinese Staff superannuation account \$50,000; Reserve for War Losses \$1,538,206; balance for new account \$126,744.

The authorised capital amounts to \$2½ million (300,000 shares of \$7.50), the paid up capital amounts to \$2,200,013 (293,335 shares of \$7.50). General Reserve stood at \$500,000 as at Dec. 31, 1947. Fixed Assets (Cattle, land, buildings, plant, vehicles, etc.) amount to \$2,608,596. Current Assets as per Balance Sheet \$4,574,692 against Current Liabilities of \$5,668,075, in which latter amount an overdraft with the bank on blocked account of \$1,533,879 is included.

The Company's war losses amount to \$2,476,826 for which provision has been made by transfers from mainly cattle reserve (\$575,000) and the transfer from 1946 profits of \$1,538,206 as above.

The current market price of Dairy Farm shares is about ten times higher than the paid up value. The Company operates several restaurants and kiosks, an ice and cold storage plant, shops for perishable and canned foodstuffs in many parts of the Colony, a large dairy farm with almost 900 head, and is Hong-kong's principal milk supplier. Current business is excellent and the management plans further enlargement of its manifold activities.

Directors:—Mr E. R. Hill (Chairman), Messrs N. O. C. Marsh, R. Gordon, Dr S. N. Chau and P. S. Cassidy.

LANE CRAWFORD LTD.

At the ordinary yearly meeting, held on July 3, the Accounts for the period May 1, 1946 to February 28, 1947 (ten months) were submitted to the shareholders.

The Profit and Loss Account shows a credit balance of \$1,161,546 which has been transferred to the Appropriation Account and, together with the balance of \$823,081 brought forward from April 30, 1946, left the resultant credit of \$1,984,627. A rehabilitation grant to the Staff, representing a payment of six months' basic salary at 1941 rates to those members who rejoined the Company after the War, amounting to \$25,895, has been debited against this, as also has the interim distribution of \$150,000 effected to shareholders in December last.

The balance standing to the credit of Profit and Loss Accounts has been appropriated as follows:—Payment of a final dividend of \$1 per share and a bonus of \$2 per share, \$225,000; carry forward to next Account, \$1,583,732; total, \$1,808,737.

The Company holds a controlling interest in Wm. Powell Ltd. (21,336 shares) and a considerable investment in the Canton Insurance Office Ltd.

Directors:—Mr F. C. Barry (Chairman) Messrs R. A. Dastur, R. Johannessen, and S. T. Williamson.

SANDAKAN LIGHT & POWER CO. (1922) LTD.

The 20th ordinary yearly meeting was held on June 26 when accounts for the year 1941 and the period Jan. 7 to June 30, 1946 were presented to the shareholders. The net loss for the first 6 months of 1946 amounted to \$13,101, and the amount of \$23,434 has been carried forward to the debit of the next account. The share capital of the Company amounts to \$250,000 (50,000 shares of \$5 fully paid). Fixed Assets total \$300,482 as per Balance Sheet at June 30, 1946. Current Assets of \$89,560 were in excess of Current Liabilities amounting to \$67,255.

General Managers are Shewan, Tomes & Co Ltd., and Directors have been appointed as follows:—Mr S. M. Churn (Chairman), Messrs I. W. Shewan, R. A. Wickerson, and D. W. Minton.

At the present time the Light & Power Co. gives limited supply of current for lighting from three petrol driven sets but a 500 kilowatt Turbo-Alternator, ordered last year, has recently arrived in Sandakan, and this, with a 250 kilowatt Alternator to be driven by part of the old steam plant, which it has been found possible to recondition will enable the company to meet all demands for some years to come.

Even now the firm is not able to pay its way, the number of consumers being only about one-fifth of that of pre-war, but in about two months' time, when the new plant is expected to be in operation, an increasing demand could be supplied.

The rehabilitation of Sandakan as a whole, on which the company of course, depend, is making slow progress and the Company is faced with further heavy expenditure but, with the territory, Sandakan will in due rights and assets of the Chartered Company and the demand for the forest and agricultural products of the territory. Sandakan will in due course regain, if not increase its former prosperity.

The current market price is \$13, i.e. 160% higher than the paid up value per share, and higher than maximum quotations before the war when also no dividends could be paid by the Company.

HONGKONG ROPE MANUFACTURING CO. LTD.

The 58th ordinary yearly meeting was held on June 28, when Accounts for 1945 and 1946 were presented. The net profit for the year 1941 amounted to \$281,036 which, when added to \$83,006 brought forward from 1940 Account, left a balance of \$364,042 at credit of Profit and Loss Appropriation Account to carry forward to 1942. For the period January 1, 1942, to December 31, 1945 balance at credit of Profit and Loss Appropriation Account, after deducting charges and administration expenses, was \$268,454 which was carried forward to 1945.

War losses amount to one million based on the book value of the assets lost and destroyed, including the sum of \$514,650, being the estimated cost of rehabilitation of those assets which it is proposed to reinstate.

Following are the accounts for the year ended December 31, 1946. The net profit for the year is \$36,194, which amount added to \$268,454 brought forward from the 1942/1945 Account leaves a balance of \$304,603 at credit of Profit and Loss Appropriation Account which was carried forward to next Account.

According to the balance sheet, Fixed Assets stand at a very low figure due to the conservative policy of the Board over a period of many years, and Current Assets total \$351,448 against \$309,736 shown as Current Liabilities.

Directors:—Mr S. T. Williamson (Chairman), Sir Robert Ho Tung, Mr I. W. Shewan, Mr A. Raymond, (Directors), Mr F. J. Tavares (Secretary).

HONGKONG MINES LTD.

The annual meeting of the Company was held on June 26 when the

Chairman (Mr H. J. Armstrong) informed the shareholders that there is no immediate hope for the starting up of the mine (at Lin Ha Hang, in the New Territories). The Company has not been working throughout the period following the reoccupation of Hongkong. Reparation claims have been filed in respect of lost and damaged property, equipment and installations; certain parts have been removed to Hainan.

In order to resume operation the Company would have to employ mining experts and staff for which purpose fresh capital may be required. In view of the lost share register, the Company's Directors do not know who are all their shareholders and therefore the issue of new capital must be held in abeyance until a complete share register has been constituted.

The quotation of H.K. Mine shares at the local market of 7 cents is nominal.

HONGKONG STOCK & SHARE MARKET

The undertone of trading at last week's market continued firm, and there was steady and sustained demand for Utility shares with the exception of Telephones which fell to \$ 47 at which rate a few buyers came in. Only a short while ago Telephone shares changed hands at \$ 63.

Wharves were on the easy side due to the pending issue of new shares at 100 percent premium which is causing some criticism among the shareholders who hold, and with some justification, that new capital should be issued at par as and when required. The Company has not paid any dividend for 5 years and it would have been now a good occasion to let the shareholders buy the new issue at no premium whatsoever. It is hoped that the Directors will revise their policy.

Bank shares were in good demand and it was difficult to obtain even small lots. Although Reuter cables a quotation of £ 110 for London Register, local brokers learn that no business was done in London at such a price. The Reuter price is based on wrong information and tends to mislead in view of the fact that even at £ 115 Banks were hardly obtainable in the London market. It must be borne in mind, however, that the sale of a lot of 5 shares is sufficient to make a quotation at the London Stock Exchange.

Union Insurances were on offer from London at 45½ with some business done here at \$ 730. H.K. Fires and Cantons were in demand at 290 and 400 respectively.

Underwriters had a sensational rise from \$ 2 to 4½ with little or no business done at intermediate rates. There is a liability of \$ 3 on these shares which shareholders should take care to note.

Trams were taken up to \$ 25¼ and Electrics sold at 62¼. China Lights found buyers at 16¼.

Douglas S.S. shares were done at 245, the first sale since the Stock Exchange opened for business in 1947.

Rubber Plantation Shares

The publication of balance sheets of a number of rubber companies is expected within a week. There should develop, after the latest figures of the various rubber estates have been made available to the public, a brisk market in Hong Kong. Shanghai transacts very good business in the unofficial market at prices which are, by & large, on a level with 1941 rates. The future transactions in about two dozen rubber shares should inject new interest in the local market which at present is, apart from the few favourites, in an almost dormant state.

Restrictions on trading in the shares of two local department stores, the Sun Co. Ltd. and the Sincere Co. Ltd., have been removed with effect from July 2. Altogether 24 local public companies' shares have been exempted from the provisions of the Moratorium Proclamation.

HONGKONG STOCK EXCHANGE QUOTATIONS

	July 2	July 4	July 7
H.K. GOVT LOANS			
4% Loan	108½	108½	108
3½% Loan	103½	103½	103½
BANKS			
H.K. & S. Bank	1950	2000	1985
H.K. & S. Bank (Lon. Reg.)	£110	110½	112½
Chartered Bank	£ 13½	13½	13 1/16
Mercantile Bk. A. & B.	£ 21¾	21¾	21¾
Bank of East Asia	107	108	108
INSURANCES			
Canton Ins.	405	405	400
Union Ins.	740	710	720
China Underwriters	3.75	4.10	4.75
H.K. Fire Ins.	310	310	300
SHIPPING			
Douglases	245	245	245
H.K. & M. Steamboats	11	11	11
Indo China (Pref.)	101	101	101
Indo China (Def.)	379	379	379
Shells (Bearer)	102/6	102/6	101/10
Union Waterboats	26	27	27
DOCKS, WHARVES, GODOWNS,			
H.K. & K. Wharves	245	240	240
H.K. Docks	30¼	30	30¼
China Providents	22½	22½	22½
S'hai Dockyards	15½	16	15½
MINING			
Raub Mines	7	7	7
H.K. Mines	7 c.	7 c.	6 c.
LANDS, HOTELS & BLDGS.			
H. & S. Hotels	23¾	25¼	25
H.K. Lands	74	74¼	74¼
S'hai Lands	5	5	5
Humphreys Estates	25	24¾	25
H.K. Realities	17	17	17
Chinese Estates	190	190	190
PUBLIC UTILITIES			
H.K. Tramways	24¼	25	25¼
Peak Trams (Old)	10	10	10
Peak Trams (New)	4½	4½	4½
Star Ferries	120	118	116
Yaumati Ferries	34	34	31
C. Lights (Old)	15¾	16	17½
C. Lights (New)	10¾	11	11½
H.K. Electrics	62	62½	64½
Macao Electrics	24½	24	23½
Sandakan Lights	13	13	13
Telephones (Old)	46½	47	47½
Telephones (New)	29	29	29
INDUSTRIALS			
Canton Ices	7¼	7¼	7¼
Cements	20½	22½	22½
H.K. Ropes	19½	19	19½
STORES &c.			
Dairy Farms	77½	76	75¼
Watsons	56¼	56½	56¼
Lane, Crawford	40	40	40
Sinceres	9.30	9.30	9.30
China Emporium	14	14¼	14¼
Sun Co., Ltd.	6½	5	5
Kwong Sang Hong	225	225	225
Wing On (H.K.)	135	135	135
Wm. Powell, Ltd.	5½	5½	5½
MISCELLANEOUS			
China Entertainments	30½	30½	30½
H.K. Constructions (Old)	7¾	7¾	7¾
H.K. Constructions (New)	6½	6½	6½
Vibro Piling	13/3	13/3	13/3
Marsman Investments	1/6	1/6	1/6
Marsman, (H.K.)			
COTTONS			
Ewos	8	7.50	7.70

REPORT FROM INDOCHINA

The Economic Council of Indochina met during the first week of May in Dalat the important feature of which was that representatives of all Indochinese states with the exception of Annam and Tonking took part in it an event unprecedented heretofore, which is bound to have a bearing upon the political and economic progress of the country.

The decline in wholesale prices in South Indochina, affecting principally foodstuffs, was an encouraging symptom of recovery observed during May. Another favourable sign was the improved importation of paddy to Cholon.

The reduction of prices for rationed goods, decided upon by the Economic Council, will further accelerate the decline of the cost of living. However, a vital sphere yet untouched by the slump is that of transport, which is generally inadequate apart from being too expensive. The slow tempo of cargo unloading in all ports of Indochina and, particularly, in Haiphong and Saigon, involves extra warehouse expenses, protracts ship movements and, above all, exposes goods to heavy pilferage. To move goods from Haiphong to Hanoi, for instance, costs one piastre per kilo for a distance little over 100 kilometres (about 62 miles). The cost will be brought down to \$700 per ton, which is still too high.

Indochina's April balance of trade was unfavourable to the amount of 579 million francs. For the first four months of 1947 the deficit

reached one billion francs, a fact casting rather a gloomy shadow upon the whole economic picture of Indochina.

INDUSTRIAL PRODUCTION

Soap Industry

200 tons of caustic soda were imported during April, of which 95 tons were distributed among the soap manufacturers in Cochinchina and Cambodia, with the result that about 650 tons of 72% soap was produced. The remaining soda will be sent to more distant places. The question of supplies for this industry now concerns mainly coconut oil, the price of which is affected by transportation difficulties, lack of confidence and security on the part of plantation owners and speculation. These factors induce the holders of copra (dried coconut meat yielding oil) to extract it primitively despite the small yield (30%) as compared with that of 54% by modern presses applied in Saigon. In order to cut short the black market and improve the production, the Chief of Mytho province, centre of copra, has issued a decree prohibiting the exportation of coconut oil and at the same time authorising the transportation of copra. This measure is expected to result in an inflow of copra to Saigon and ameliorated production.

Coal Production

The total import to Cochinchina in April was 6,300 tons, which is less than in March. The government and various industries remained well supplied, however. The production of coal in March 1947 was as follows: Gross production in mines 18,635 tons; Net quantity in stock 17,597 tons.

The production in April is estimated at approximately 18,000 tons.

Rubber Production

The production of rubber is making good progress. However, it is also affected by various ills of Indochina's economic position. Resultant from insufficient importation of paddy to Cholon, the demand for certain articles used for rice-fields declined. The supply of materials for production has been satisfactory with the exception of accelerators. The competition of imported tyres has an adverse effect upon the local market.

Miscellaneous Industries

The Oxygen & Acetylene Co. have brought their sales of oxygen up from 10,255 cubic metres in February to 13,674 in April and of acetylene from 5,647 in February to 7,684 in April.

La Societe Francaise des Distilleries de L'Indochine supplies monthly from 1,600 to 1,700 Hl of pure alcohol and in case of demand could produce also for export.

Despite the difficulty of getting paper for packing, Bastos Co. put onto the market 38,000 kilos of to-

bacco in April, and the M.I.C. showed an output of 1,528 cases of 20,000 cigarettes. The U.N.I.T.A. factory, destroyed in September, 1945 was not yet able to resume production which reached 400 cases per month.

ECONOMIC STATUS OF TONKIN

Commerce:—

The commercial laws in force in the South have been extended to the North since the departure of "Alexandre de Rhodes" to Hongkong.

The Customs in Haiphong have been undergoing reorganisation since April.

The importation of necessities for economic recovery so far has been estimated at 6,400 tons per month.

Production:—

The forests of Tien Yen will undergo planned exploitation.

The production of electric energy is sufficient for supplying the central district of Haiphong.

The supply of current in Hanoi is insufficient because of coal allocation difficulties. It was impossible to restore the line of high tension between Hanoi and Haiphong.

As to water supply, the position of Hanoi is quite favourable. In Haiphong the problem is mainly dependent upon fortune (Layne wells, stemming of salted water)—however, the supply canal and the dam of Yong Bi were rehabilitated, and it is hoped to resume the normal supply of the town about June 10. The production of coal again reached 18,000 tons in March. The stocks are sufficient for supplying the most urgent needs.

The cement factories may be rehabilitated in July. The Military Authorities are expected to demobilise some troops, and they will assemble a fleet of junks for transporting the lime-stone and clay.

As to mechanical workshops, only the Dancette and Robert were able to resume operation by accepting the prohibitive demands of their staffs. Other enterprises (S.A.C.M. et Combel) are prepared to undertake the repairing of junks.

The twine factory is another industrial concern that resumed. The glass-works are waiting for the shipment of American materials.

The main problems of the industry are costs of labour, which could be solved both by recruiting all natives entering the French zone and by demobilising some French troops as well as by engaging Chinese specialists from Hongkong.

Communications

In Haiphong only 3 berths are at present usable. The reconstruction work at present is limited to rebuilding some warehouses. The godown space now utilised is 10,000 square metres as compared with 36,000 pre-war.

The maritime traffic rehabilitation work is hampered by the lack of personnel.

The restoration of direct traffic between France and Haiphong is acutely needed. This has been made possible by the rehabilitation of the Customs in Haiphong. The fleet comprises 4 tug-boats and 2,200 tons of junks.

Over 3,800 tons of coal were transported between Hongay and Haiphong from March 15 to April 18.

The road between Hanoi and Haiphong has been repaired. From 80 to 120 vehicles are using it daily in both directions. The state of the road, despite the destruction, is somewhat similar to that of August 1946. The ferry service so far has not been resumed. The rebuilding of the bridge in Haiphong presents a difficult task. The resumption of traffic in May was to be limited to 200 tons per day.

On the airports of Cat Bil and Giam lam the work is progressing normally. The rehabilitation of Bach Mai, Hanoi military airfield, will commence soon.

POLITICAL REPORT

In our issue of March 19, pp. 150/1, a review of the current political position in Indochina was published. The background of the struggle in Indochina, now almost 8 months old, is reviewed in the following report.

Indo-China is a "composite" country, a federation of countries, which differ profoundly from each other by race, language, history and religion. Annam and Tonkin, which have been under Chinese influence for eleven centuries and are peopled by Mongol tribes, have nothing in common with Cambodia Khmer, which is Buddhist territory where the influence of India has been preponderant, nor with Laos. All Annamites are Indo-chinese, but all Indo-chinese are not Annamites. The infiltration of the Annamites into what is known today as South Annam and Cochinchina—regions where powerful cultures prosper like that of the Kingdom of Cham, which owe nothing whatever to Mongolian influence has been of recent date. The people of the high plateaux—those whom the Annamites annexed calling them "Moi" or "Barbarians"—are mostly Khmers or Indonesians related to the Malays, and they consider the Annamites as invaders.

A federal conception has always appeared to be the only feasible one for Indochina, in order to avoid the oppression of any one of these peoples by another, and to allow the free developments of each of them. Viet Nam is an Annamite and, above all, Tonkinese state, but it is not Indochina. Hanoi cannot speak for Pnom-Penh nor for Saigon.

The Japanese fostered the development of the Annamite anti-French movements, particularly during the last year of the war. The Viet-Minh party or rather confederation of predominantly Communist parties promoted by this Japanese support.

The other Annamite parties, notably the Dong Minh Hoi and the V.N.Q.D.D., turned rather towards China. Under these conditions the Japanese obtained their desired results. Numerous Japanese Army officers entered the Army or the guerilla forces of Viet-Nam and their activities contributed powerfully towards the maintenance of anti-French agitation.

The French Government has shown foresight in recognising well before the fall of Japan, that the victory of the United Nations in the Pacific would not necessarily mean the re-establishment of the old colonial order which existed in 1939. The so-called "Declaration of the 27th March, 1945" laid the basis for the formation of a federal Indo-chinese State within the French Union. Nearly a year later, in the course of which the political and, above all, the economic life of Indochina greatly deteriorated, this Declaration was followed by an agreement between France and Viet-Nam—on 6th March, 1946—concluded at Hanoi between M. Ho Chi-Minh and M. Sainteny, the French High Commissioner. The text of this agreement, freely negotiated and signed by the two participants, recognised the existence of the "Republic of Viet-Nam" as a member state of the Indo-chinese Federation and of the French Union. Thus the federal principle was ensured, the sole guarantee of the autonomy of the Indo-chinese country and of French lives and interests.

Several weeks later M. Ho Chi-Minh arrived in Paris and the Conference of Fontainebleau opened. It reached a stumbling block almost immediately because of claims of Viet-Nam which were incompatible with the agreement of 6th March: France could neither allow the Hanoi authorities to seize in effect Cochinchina without a plebiscite nor could she admit the repudiation of the federal principle. Negotiations dragged on and during that time the extremist faction of the Viet-Minh party perpetrated innumerable acts of violence in Cochinchina: sabotage, attacks and reprisals against Cochinchinese suspected of Franco-ophile tendencies. To put an end to these outrages, M. Ho Chi-Minh and the French Colonial Minister signed on the 14th September, 1946, a "modus vivendi" which, without settling questions of principle offers the great advantage of tackling realistically and solving the most urgent factual problems: The establishment of law and order in Viet-Nam, education and cultural activities, monetary and tariff unification in Indochina and the cessation of all acts of hostility

Cochin-China. The "modus vivendi," based upon a genuine principle of reciprocity, was able to re-establish an atmosphere of conciliation. Unfortunately, these hopes have not been realised. The "modus vivendi" has not been carried out on the Viet-Nam side and the situation in Indochina is more tense than ever.

The problem is not that of re-establishing French colonial domination in Indochina, for that was unilaterally renounced by France even before the defeat of Japan. It will be interesting to see whether France—whose jurisdiction, cultural and medical establishments, and whose enterprises represent a substantial part of Indo-chinese assets—and the different peoples of the peninsula, on an equal footing, will be able to construct a federal state capable of peaceful progress.

APRIL TRADE RETURNS

Imports into the states of Cochinchina, Cambodia and Laos reached 13,600 tons in April 1947, that is 5,500 tons less than in the preceding month. However, the value of these imports was much higher: 1,252 million Francs as compared with 875 million in March.

It was the highest monthly value registered in Saigon. This is mainly the result of the importation of manufactured products: 1,135 tons of cotton (as compared with 340 in March 1947 and 520 per month in 1938), 274 tons of paper, 2,030 tons metal articles (as compared with 1,167 in March 1947 and 613 tons per month in 1938) and 282 motor cars (189 in March 1947 and about 140 per month in 1938).

The import of foodstuffs was also substantial, especially that of potatoes, wines and spirits.

As usual, France is heading the list of importing countries to Indochina despite the lack of goods she is suffering from. The mother-country ships to Saigon every month the same tonnage as pre-war. Her efforts are especially remarkable insofar as cotton and motor cars are concerned, of which Indochina is badly in need. France has imported 65% of the total in April: United States 24%, India, French Empire and Hongkong—from 1 to 3%.

The exports from Cochinchina, Cambodia and Laos, registered in April, have risen to 21,000 tons, which was 5,800 tons higher than in the preceding month. But the value of exports has diminished in comparison to that of March (673 million Francs as compared with 820 million) because exports in April consisted more of rice than rubber. The export of rice, which decreased in February and March, has picked up and reached 13,000 tons. The export of rubber, on the contrary, has fallen from 9,400 to 6,200 tons, and as it included the yield of the preceding harvest, a further drop in monthly rubber export may be expected.

No exportation of maize, pepper and tea was recorded in the course of April.

Balance of Trade for 4 Months of 1947

With the unfavourable April balance of 579 million Francs the balance of trade of Indochina for the first four months of this year reaches a deficit of over 800 million Francs. Following are monthly figures: (in million Francs).

	January 1947	February	March	April	Import	Export	Balance	Total
					776	897	+	121
					392	598	—	294
					875	820	—	55
					1252	673	—	579

Indochina Piastre official exchange rates are: HK\$1—I.C.\$1.79; £—I.C.\$-28.40; US\$1—I.C.\$7.05; 17 French francs—I.C.\$1.

THE FOREIGN TRADE OF INDOCHINA

Units	1938 Monthly Medium	1946 April	1947 January	1947 February	1947 March	1947 April	Jan. To April 1947
IMPORTS INTO CAMBODIA, COCHINCHINA & LAOS							
Tonnage	1,000 T.	26.6	4.6	14.1	13.1	19.1	59.9
Value	1,000,000 fr.	99	175	776	892	875	2,495
France	1,000 T.	5.4	—	4.3	5.6	4.6	19.9
Fr. Empire	"	1.4	—	2.7	0.2	0.1	3.5
U.S.A.	"	1.4	1.1	0.8	1.6	5.8	10.8
India	"	0.9	2.2	0.1	0.8	0.8	2.2
Hongkong	"	2.5	0.5	0.3	0.6	1.2	3.0
N.E.I.	"	5.2	—	2.7	2.8	3.4	11.8
France	1,000,000 fr.	54	12	504	531	575	2,427
Fr. Empire ..	"	4	—	69	9	10	108
U.S.A.	"	3	9	66	124	127	619
India	"	3	110	6	20	31	74
Hongkong	"	7	35	17	17	16	93
N.E.I.	"	5	—	14	18	16	62
Merchandise:—							
Milk	Ton	371	—	271	287	145	818
Flour	"	1,585	38	838	9	2,510	3,717
Potatoes	"	185	123	458	637	261	2,012
Sugar	"	69	2	2,519	—	—	2,519
Tobacco	"	303	0.6	121	241	111	501
Vegetables ..	"	1,182	213	277	234	167	904
Wines	"	382	—	546	549	725	2,548
Spirits	"	23	1	214	270	205	857
Oil	"	392	—	—	—	5,004	5,004
Gasoline	"	7,157	1,642	2,722	3,271	3,546	12,562
Metals	"	1,652	18	421	213	934	2,820
Jute Bags	"	1,530	1,546	125	744	545	1,830
Cotton Goods ..	"	520	3	246	246	340	1,987
Paper	"	515	92	—	284	59	617
Machinery	"	242	4	191	1,536	228	2,073
Metal Goods ..	"	613	14	397	666	1,167	4,260
Motor Cars ..	Number	140	—	93	117	189	681

EXPORTS FROM CAMBODIA, COCHINCHINA & LAOS

Tonnage	1,000 T.	136.1	14.7	38.1	21.7	15.2	21.0	96.0
Value	1,000,000 fr.	186	853	897	598	820	673	2,988
France	1,000 T.	79.8	13.7	4.3	4.0	3.8	4.3	16.4
Fr. Empire ..	"	10.6	—	—	3.4	2.7	7.1	13.2
U.S.A.	"	2.0	—	—	—	3.8	3.6	7.4
Hongkong	"	14.3	0.8	5.1	3.1	0.1	1.0	9.3
Singapore	"	6.1	0.1	8.3	2.1	4.5	3.0	17.9
China	"	2.0	—	15.7	—	—	0.3	16.0
France	1,000,000 fr.	91	809	361	243	280	139	1,073
Fr. Empire ..	"	11	—	10	70	44	125	249
U.S.A.	"	20	—	4	—	254	202	460
Hongkong	"	15	33	67	56	3	22	148
Singapore	"	19	5	127	22	235	95	479
China	"	2	—	203	—	—	4	207
Merchandise:—								
Salt Fish	Ton	2,661	77	—	152	—	130	282
Maize	"	33,110	—	—	988	2,127	—	3,115
Rice {	cargo ..	4,660	—	—	—	—	297	297
	unhusked ..	54,108	10	21,614	12,955	1,246	6,315	42,130
	husked ..	14,534	—	3,271	2,277	770	4,942	11,260
	flour	8,261	—	2,249	7,881	739	1,407	12,276
Beans	"	458	1,639	194	263	181	—	638
Tea	"	28	—	15	39	—	—	54
Colophanes ..	"	1	20	—	400	—	225	625
Rubber	"	4,835	10,531	4,206	1,004	9,412	6,178	20,800
Kapok	"	310	159	74	341	4	2	421
Rice	1,000,000 fr.	82.	0.2	501	291	52	249	1,093
Rubber	"	52	561	300	65	650	345	1,360

REPORT FROM BRITISH MALAYA

There has been much talk in Singapore of the establishment of a new Dominion of South East Asia which should include the future Federation of Malaya, Borneo and Sarawak. The eventual union of Singapore and the Malayan Union into a proposed Federation of Malaya finds many supporters among all nationalities in Singapore. The Association has approved proposals advocating the union within the framework of a new British Dominion.

Although at present the establishment of a new Dominion of South East Asia appears to be rather far away, planning for such a new member state of the British Commonwealth of Nations is very important. Besides British Borneo and Sarawak the proposed new Dominion should also include Hongkong.

Educational Problems

All Malaya supports the plan of the early foundation of a full University in Singapore, eliminating the interim stage of a University College. The investigation carried out in Singapore by the Carr-Saunders Commission on Education was regarded as a right step in the right direction. The new University should be a national institution and not merely an Oxford or Cambridge in miniature.

The importance of university education in Singapore for the faster integration of the various peoples living in British Malaya cannot be overemphasised.

Industrial Difficulties

The low rubber price proves detrimental to the rubber plantation industry. While the world market price remains around the pre-war level, production costs doubled, wage rates were still higher and tend to increase. To pay even current wages and to allow for amortisation and depreciation, a price of about 50 Straits cents per pound seems necessary if a modest dividend is to be paid by rubber companies.

Rubber production is progressing and March saw the record figure of 58,782 tons, the highest for any month since the liberation. Total output for Jan. March 1947 was five times that for the corresponding period in 1946.

Recovery in the tin industry has been disappointing. This is due to inadequate coal supplies, delay in delivery of imported plant and equipment, and Japanese failure to maintain power stations. The adverse coal situation will retard tin production in 1947.

The Chinese tin miners have asked Government to allocate potential new tin areas for development but

Government has not yet considered new allocations. The Chinese mine owners contend that many mining areas may soon be worked out and suggest that dredging companies should sub-lease some of their land to Chinese miners at a reasonable rate of tribute.

Relations with Indonesia

Trading with Netherlands Indies is increasing but strict export-import controls by the Dutch authorities give traders few opportunities. Provided that political relations between the Dutch and the nationalist faction of the Indonesian Govt are improving, the outlook for greatly increased trade between the N.E.I. and Malaya is promising.

The progress of the Indonesian Republic is watched very anxiously by the Malay population. Sympathies for the new Indonesian states is general among the Malays while the reaction among the Chinese, by & large, is one of wait-and-see. The success of the Indonesian Federation will greatly influence the political picture in Malaya, and will have a distinctly beneficial effect on the Malay community.

Estimates of Malaya

The estimates of the Colony for the current year are £66,000,000, compared with £36,000,000 in 1946.

Income Tax

After several alarms and excursions it appears that income tax for Malaya is appreciably nearer, and strong arguments are being put up against its imposition. The objections range from difficulties of collection in a highly heterogeneous population, keeping accounts in many languages and accustomed to transact a large volume of unrecorded business, to pleas that after enemy occupation the country should be allowed at least four years' grace before being called on for direct taxation, particularly in view of the absence of political representation. The Singapore Ratepayers' Association, one of the leading public bodies, has recorded its opinion that the tax would be unfair and easily evaded. Others are of the opinion that the tax might be the signal for a new outbreak of strikes, since many classes of manual labour are likely to come within the scope of the scheme, and workers would interpret the tax as equivalent to a reduction of wages.

Wages & Salaries

Details have been issued in Singapore of the personnel and terms of reference of the Malayan Salaries

Commission and Joint Wages Commission, which are to make recommendations affecting the emoluments of public officers and conditions of employment of daily-paid workers respectively. The most significant point in the terms of reference concerns the extent to which cost-of-living allowances should be incorporated in basic salaries, having regard to the fact that stable economic conditions have not yet been re-established.

Labour Problem

Shortage of labour is now giving point to criticisms of the continued apparent lack of official policy concerning immigration, a subject which is beset with several political complications and which, unless it is soon settled, must exercise a drag not only on rehabilitation but on primary industries. It is understood that the War Office has been driven to consider the possibility of recruiting its own labour in Japan.

A Labour Advisory Board, unique in labour-management relations in the Far East, has been set up in Singapore, and will be followed by the appointment of a similar body in the Malayan Union. Consisting of three representatives each of Government, labour and management, it will be readily accessible to both sides in industrial disputes.

New Malayan Constitution

Final proposals from the Governor-General for the constitution of a new Malayan Federation are believed to have reached the Secretary of State early in May. It is hoped to introduce the new Constitution on January 1, 1948.

War Damage Claims

More than 650 claims, representing losses amounting to hundreds of millions of dollars, have been filed with the Malayan War Damage Claims Commission by owners of rubber, palm oil and coconut estates, miners, merchants of rice and other insurable commodities, smallholders and shopkeepers in the Union. The assessors will be at work three years before the Malayan Government is faced with the problem of finding ways and means to pay the final bill.

Trade with Japan

Japanese textile have begun to arrive in Singapore from Japan, imported on Government account. A policy of bartering cloth for padi, on the basis of a yard of cloth for a picul (about 133 lb.) of padi, has been successfully introduced by the Government in some of the Malay States.

FAR EASTERN ECONOMIC REPORTS

TRADE OF CHINA FOR JAN./APRIL 1947

For the first four months of 1947 China's foreign trade, as far as recorded by the Chinese Customs, totalled US\$189½ million imports, US\$68 million exports, resulting in a trade deficit of US\$121½ million. China's exports were only about 35 percent of her imports.

The US\$ computations are based on the official rate of exchange as prevailed for the months January and February (CN\$3,350 per US\$1), and for March and April (CN\$12,000 per US\$1).

Exports and Imports of China for Jan./April 1947: (in billions of Chinese dollars and in millions of US dollars):—

	Imports CN\$	Imports US\$
January	150.6	45
February	216.8	65
March	430	36
April	520.4	43.5
		189.5

Leading imports were: machinery metals, metalware, vehicles, transportation equipment, gasoline, kerosene, paper and raw cotton.

Leading exports were: tung oil, bristles, minerals and ores, silk goods, sundries.

REGISTERED IMPORTERS IN CHINA

The Board for Temporary Regulation of Imports, China's Import Control, disclosed last week that a total of 3,696 applications was received up to May 31 and 577 qualified since the enforcement of regulations of Nov. 17, 1946.

A total of 2,828 applications were filed by Chinese firms, of which 375 or 13.3 per cent. qualified. 226 applications were filed by Americans, of which 54 or 20.3 per cent. qualified; 210 by

CHINA'S BRISTLE EXPORTS

Bristle exports to the U.S. from Tientsin during April 1947 totalled 452,215 pounds valued US\$ 2 million, against 221,506 pounds (valued US\$ 981,000) in March. Average value of April exports, packed, ready for shipment, was US\$ 4.567 per lb (in March \$ 4.43, in January 1947 \$ 4.37 per lb).

During the latter part of April the Tientsin market was firm, sellers were reluctant on account of continued depreciation of Chinese money and the anxiety about the spreading chaos in China.

In New York, the standard 55 case assortment declined from \$7 per lb, cif New York, to \$6.25 at the end of April. Further declines are expected during 1947.

	Exports CN\$	Exports US\$	Excess CN\$	Excess US\$
January	48.4	14.5	102	30.5
February	81.2	24	135	41
March	144.9	12	285	24
April	210.9	17.5	309.5	26
		68		121.5

British, of which 56 or 26.7 per cent. qualified; 125 by the Soviet, of which 10 or eight per cent qualified; 31 by Swiss, of which 15 or 48.4 per cent. qualified; and 238 by various nationals, of which 67 or 28.1 per cent qualified.

Other Tientsin exports went to U.K., Australia, Holland and Belgium. The principal bristle shipments in April were: 2,091 cases, 55-short (2½ to 6"), US\$ 4 to 5; 420 cases of 2½ to 3¼", US\$3.15 to 3.50; 400 cases 2¼", US\$ 1.15 to 1.25; 579 cases 55 long (2½ to 5½"), US\$6.50 to 7; 250 cases of 26-case, 2½ to 4", US\$ 3.00 to 3.60. Total number of cases shipped in April: 4,114.

GOATSKINS AND KIDSKINS FROM CHINA

Declared exports of goatskins and kidskins from Tientsin to the U.S. for Jan.-March 1947 amounted to 2,552 pieces only.

COTTON PRODUCTION IN CHINA

The 1946 cotton production in China, excluding Manchuria, was about 1,854,000 bales (Central China 1,058,000, North China 704,000 bales), as compared with 1,656,000 bales in 1945, an increase of about 8 percent. The price has not been attractive for growers to encourage more plantings.

Consumption of raw cotton by China's mills, now operating about 3 million spindles in two shifts, is about 125,000 bales per month. Potential mill consumption for the season (Aug. 1, 1946 to July 31, 1947) will be about 1½ million bales. Spindles in place are about 3.3 million and when power becomes available consumption could increase to 137,000 bales per month, i.e. about 1.6 million bales per year.

PEPPER EXPORTS FROM INDO-CHINA

The outlook for pepper in Indochina is unfavourable because of a cryptogamic disease which has been attacking the pepper plants in the Kampot area since 1939. Because of the war, sulfur and sulfate could not be obtained to combat the disease. The Chinese, who normally undertook the difficult cultivation of pepper plants, did not work and the Japanese were not interested in promoting its cultivation. The soil seems now to be thoroughly polluted and cultivation of pepper will have to be moved to another region, probably the Red Soil area.

Pepper production in 1946 amounted to about 1,850 metric tons, and 5,935 tons were exported. Most of this was stockpiled during the war. The current harvest is estimated at 800 tons to 1,500 tons. France's normal demand is 2,500 tons.

Quotations f.o.b. Saigon are now around US\$ 371 per 100 kilograms of white pepper, and US\$ 241 of black pepper. Delivery cannot be guaranteed.

OIL INDUSTRY IN JAPAN

Salient statistics on the Japanese oil industry during 1945 and 1946 are presented below (in barrels unless otherwise stated):

Item	1945	1946
Crude petroleum production	1,543,893	1,342,229
Number of wells drilled	119	95
Imports of Petroleum products	157,056	2,546,847
Refinery output:		
Liquid products	1,608,742	1,229,356
Other products, metric tons	16,891	20,048
Petroleum products marketed:		
Gasoline	501,250	852,326
Kerosene	197,261	258,091
Gas oil	109,339	438,080
Diesel oil & Fuel oil	780,979	1,751,557
Lubricating oil	350,963	474,046
Total liquid products	1,939,792	3,774,100
Other products, metric tons	12,320	12,745

TRADING WITH JAPAN

Great excitement has been caused among the nations of the world about the resumption of private trading with Japan but the initial difficulties will be rather unpleasant in our bureaucratic world of red-tape and controls. Nevertheless, within a short span of time some sort of normal trading will re-establish itself.

The London Economist has the following to say on the resumption of private trading with Japan:—

On August 15th Japan is again to be open to private foreign trade. The enterprising merchant will now once more be permitted to penetrate the seclusion of this forbidden country and even, with the blessing of the Supreme Commander of the Allied Powers, to dream of indulging the profit motive. But the obstacles in his way will be as many as the dragons confronting the hopeful knight-errant in a medieval romance. To begin with, the number of aspirants will be limited; there will only be accommodation and food supplies for 400, and the Inter-Allied Trade Board in Washington will have to distribute places among Allied nations, so that the would-be merchant must presumably first of all get on to a priority list of his own Government. If he is selected and can reach Japan, he will then be faced with the problem that the yen has no foreign exchange rates. Prices in dollars are to be fixed for various commodities by Allied Headquarters, but sales may be in "any acceptable currency." Transactions in sterling will presumably be in sterling prices fixed from the official dollar-sterling rate, and similarly with francs and other currencies, but what Japanese business men will think of the relative values of different currencies will presumably be reflected in the degree of their willingness to be paid in them at the controlled prices. After the deals have been made they have to be confirmed by both the Japanese Government and Allied Headquarters, so that the merchant will never be sure whether he is wasting his time or not until the last form has been dealt with by the officials concerned. However, if none of these difficulties daunts the trader, there are said to be quite a

number of products which Japan now has available for export ranging from paper, clocks and surgical instruments to dried mushrooms, chestnuts and tinned vegetables. As for what Japan wants to buy, it is almost any kind of raw material, but there may also be a certain market for manufactures and for capital goods to restore industrial capacity. There does not seem to be any economic reason why there should not be a considerable trade between this country and Japan, but if the conditions of commerce are to remain as now laid down, a business trip to Japan will be almost as much of a hazard as it was in the time of Queen Elizabeth. Perhaps the title of "Merchant Adventurer" might be revived and conferred by the Board of Trade on business men who have deserved well of their country in such voyages.

JAPANESE CAMPHOR

January 1947 output of camphor and camphor oil amounted to 80,765 kilograms and 77,764 kgs respectively. Total 1946 production: 476,361 kgs camphor, 587,052 camphor oil. The decline in production resulted from shortage of camphor trees. Reforestation will be carried out during 1947 and the scheduled annual output goal of 2,000 to 2,500 metric tons is expected to be reached soon.

Of Japan's total camphor output, about 80 percent is available in Kyushu, 10 percent in Shikoku, and the remainder in Honshu. Crude camphor is manufactured by primitive methods, with the use of simple stills. Crude camphor is then refined at larger factories. Camphor oil is cracked by vacuum equipment into various constituents.

SUGAR IN THE PHILIPPINES

The 1946-47 crop will amount to about 78,000 short tons, of which 54,000 tons had been produced by April 31, 1947, including 41,674 tons produced in nine mills operating in Luzon.

TRADE OF CEYLON

Ceylon recorded an adverse trade balance of Rs. 58,486,407 during the first quarter of this year, as against a favourable balance of Rs. 47,024,536

during the corresponding period of last year. The total value of imports, excluding bullion and specie and postal articles, during January-March this year amounted to Rs. 199,052,515, and the value of domestic exports to Rs. 140,566,103. Corresponding figures for last year were Rs. 142,375,788 and Rs. 189,400,324 respectively.

Food Imports

The Island spent more on food, drink and tobacco during the first three months of this year than during January-March, 1946. Rs. 106,731,703 was spent on this group of imports, including Rs. 60,784,514 on grain and flour. This is double what Ceylon spent on these commodities during the first quarter of last year.

Direction of Trade

British India continues to be Ceylon's principal supplier. During the three-month period the value of goods imported from British India amounted to Rs. 43,514,231, but this figure is about Rs. 5,000,000 less than the amount spent in January-March of last year. Of foreign countries Ceylon spent most on goods imported from the United States. The total value of these imports was Rs. 10,903,718, compared with Rs. 11,143,801 during the corresponding period last year.

The U.K. continued to be Ceylon's best buyer, but, at Rs. 50,237,275, the total value of her purchases from Ceylon were just about half the figure for January-March, 1946. Another significant feature was that in March Ceylon's exports to Britain were valued at Rs. 13,606,593, whereas in March, 1946, the amount was Rs. 48,028,723.

BRITISH NORTH BORNEO

The Committee of the North Borneo Chamber of Commerce has expressed considerable concern at the expenditure appropriations, totalling \$9,150,632 for 1947. Nearly \$7,500,000 of this represents recurrent expenditure and this, it is felt, will place a load upon the revenues of the Colony which cannot be met unless by heavily increased taxation, which the war-ravaged industry of the Colony could not economically face.

Among the more detailed criticisms, the committee of the Chamber regrets the inadequate provision made for education, which, at \$135,098, represents rather less than 2 per cent. of the total recurrent appropriation. It stresses the urgent need for the establishment of trade schools in particular.

The heavy export duty of 4 cents per lb. on all grades of rubber is considered to be excessive in comparison with the new Malayan rates, which are equivalent to 2.34 cents per lb.

A committee has been formed, consisting of the Acting Chief Secretary, the Financial Secretary and members representing business interests, to consider ways and means of increasing the Colony's revenue.

LAND REFORM IN CHINA

KUOMINTANG AND COMMUNIST PARTY PROGRAMMES AND METHODS

The most pressing problem which confronts the people of China is the land reform; throughout the centuries the peasants of this vast country have been inhumanly exploited and their lot today is still pitiable. Much of the success of the Communist Party must be attributed to the realistic tackling of the land reform issue. Under the pressure of nation-wide political and economic progress achieved by the Agrarian Reformers in cooperation with the Chinese Communist Party, the Kuomintang has announced at several occasions a number of reform schemes. Little, however, has been actually done to relieve the misery of China's country people.

The Faculty of Law's Bureau of Documents, Aurora University, Shanghai, has translated several studies relating to the land reform problem as well as the "Draft Regulation on the Enforced Sale of Land by the Landowners" in Communist-governed North China. The following is a condensed account of these translations.

China is still an agricultural land with almost all her population engaged in farming. Fragmentation of the land and consequent small scale production account for the common poverty of the rural villages and until these underlying causes are removed it is useless to look for prosperity. In the future, as in the past, the condition of the agricultural population will determine the condition of the country as a whole, unless the Chinese people do away with the system of small holdings China can never develop into an industrial and democratic country.

Both the Chinese Nationalists and the Communists advocate land reform each having their own particular programme and methods of putting it into force. What they have planned, however, has not always been carried out, or has changed its nature in the course of its enforcement, so that up till now no encouraging results have appeared on either side.

Let us first examine briefly the ideologies championed by the two Parties, before proceeding to look at their actual performance and its effects; and finally to review the land measures adopted by the Nationalists in areas which they have recovered from Communist hands.

I. THE THEORETICAL POSITION OF THE TWO PARTIES CONCERNING LAND REFORM

The guiding principle of the Nationalist policy is "Equalisation of land ownership," for its working out, landowners are required to submit statements of the value of their lands, as a basis for land taxation; the Government has the right to buy up land at its reported value; and any increment of land value not resulting from the landlord's own efforts or investment is to be nationalized. The main idea in all this is to limit private ownership of land so that the wealthy cannot take advantage of it to exploit others.

Moreover, the Nationalists advocate that all farmers should own the land they till and that the rents of those cultivators who are still tenants should be reduced. Finally they contend that the more important sections of urban areas, as well as natural resources should become public property.

The Communist standpoint has undergone certain evolution which can be broadly summarized as follows:—

During the first years of its existence the Communist Party aimed only at restricting the rents collected from farmers. A large change came after the so-called "party purification" conducted by the Nationalists in April 1927 to oust the Communists from the Kuomintang. Since then their favourite slogan has been: "Cultivators should own their lands," and in their first Land Regulations they proposed confiscating the properties of the landlords and distributing them among poor farmers who should receive a permit of cultivation. Their Second Land Regulations, in 1930, forbade any buying, selling, leasing or mortgaging of land, and smacked of nationalization. In 1931 a Chinese Soviet Republic was founded and soon afterwards the Third Land Regulations were drafted; in these the idea of complete nationalisation of land was reserved for future consideration. Meanwhile the farmers' rights of ownership were recognized and the registration of the land pushed forward.

So far, from a theoretical point of view, the two policies have a good deal in common, since both Nationalists and Communists base themselves on the ideals of Dr. Sun Yat-sen. The only difference is that while the former favour a peaceful transference of rights from landlords to farmers, the latter do not hesitate before a drastic confiscation of the properties of wealthy landlords.

II.—LAND REFORM OF THE NATIONALISTS

Broadly speaking, the Nationalists may be said to propose much more than they perform, and their plans are carried out at a very slow rate, while the Communists translate what they advocate into immediate action. For this reason there is already a great discrepancy between the land reforms actually carried out by the two parties. Moreover their present environment differs widely: the Nationalists have been in power for twenty years and do not feel so urgently the need for land reforms which would incidentally affect the wealth and dominant position of many of their partisans; the Communists, on the contrary, have nothing to lose by land reforms which may even become one of their best weapons in gaining the support of the Chinese people.

To review briefly the Nationalist achievement—since the success of the Northern Expedition in 1927 the National Government has set up land bureaus throughout the Provinces. On June 30, 1930, the first Land Law was published, but it did not come into force until 1936 and then mainly on paper, since many of its provisions were ill adapted to the work in land. Ten years later, after much discussion, a Revised Land Law of April 26, 1946, was proclaimed but there is still no sign of the policy it advocates being actually put into practice. The fostering of proprietary cultivation, for instance, is being carried out only in tiny experimental districts. The only important reform which seems to have succeeded to a certain extent is the 25% rent reduction which was first enforced in Chekiang before the war and which has been inserted into the Revised Land Law. Obviously the effect of these minor achievements is too meagre to be felt much by the farmers in comparison with the needs of all the villages throughout the country. In other words the Nationalists have not made real use of the land reform as a means towards gaining the confidence of the people.

III.—PROS AND CONS OF THE LAND POLICY IN THE TERRITORIES CONTROLLED BY THE COMMUNISTS

(1) The three stages of Communist Land Reform.

Effective action taken by the Communists in so far as land reform is concerned may be divided into three stages.

From the very beginning, after their schism with the Nationalists, adopted a policy of violence which was to be carried on up to 1937. In spite of a more elaborate policy in 1934, when a land investigation movement was embarked upon, it can be said that the Communist land reform consisted mainly in prosecution of the rich landowners and redistribution of their properties.

On February 10th 1937, the Communists requested the Nationalists for cooperation in fighting the common enemy, and among the four points proposed for agreement one was concerned with the ending of land confiscation. This was again the object of a solemn pledge in the Communist declaration of September 23rd the same year, which also contained a promise not to prohibit leases of land and loaning of money. All they maintained was their demand for the reduction of rent and interests, which was similar to the Nationalist contention for a 25% reduction. How far they complied with their pledge is difficult to ascertain.

(2) Reasons for the relative success of the Communists

The majority of the Chinese peasants have been in a state of poverty for many decades. Furthermore, land renting is a very common practice especially in the South. Under such conditions a call from the Communists to prosecute the landlords and divide their land is bound to be responded to and win the support of the majority.

Once the agricultural labourers and poor farmers are in possession of their newly acquired rights, and are given full authority in localities where they were formerly despised, they are obliged to stick to their supporters no matter what true criticism may be directed against them.

Even lawabiding poor farmers cannot join in the struggle to oust the landlords, they themselves will be ousted. Having thus participated in the strife they made enemies and are afraid of revenge. The only thing which remains to do is to follow the Communists.

These are principal reasons why the Communists were able to establish themselves in Kiangsi a few years before the war and the same holds good in explaining the underground support they receive even where Nationalist troops are superior in strength.

(3) Weak points of the Communists

The Communist policy, as far as land reform is concerned, has two weak points: first, by their use of violence in redistribution of properties they infringe upon the interests of the middle class families; and secondly, they care only for equal division without taking into consideration the actual agricultural conditions.

Once started, the class struggle cannot easily be controlled. The Communists oppose the capitalistic class, in which they put the rich farmers. But in places where differences are not so evident—and these places are the majority in China—small semi-independent proprietors or comparatively well-off tenants are often classified among the capitalists.

The result is that the majority of middle-class peasants are soon considered as enemies by the hired workers and poor farmers who are put into sudden power through violence. As we have seen before these middle class people do not dare to oppose the Communist method so long as their interests have not been affected. But when confusion rages among the capitalists, they will rise up and rebel.

(4) A new tendency

This seems to have been realized by some responsible leaders. "Draft Regulations on the Enforced Sale of Land by Landowners" in the Communist Border Areas of Shensi, Kansu and Ninghsia were issued as a consequence by the Communist authorities.

If the Communists want to contribute towards solving China's land problem they will have to abandon their policy of dividing the land by force and follow the way which appears to have succeeded in the above-mentioned Border Areas.

Attention should also be paid to the minimum amount of land required for each family according to local conditions

DRAFT REGULATION ON THE ENFORCED SALE OF LAND BY THE LANDOWNERS IN THE BORDER AREAS OF SHENSI, KANSU & NINGHSIA

Promulgated by the Chinese Communist Border Areas' Government on December 21st. 1946.

General Principles

Article 1.—According to the Resolution passed at the Second Conference in the Third Term of the Administrative Council for Shensi, Kansu & Ninghsia Border Areas, and in order to carry out the principle "Every cultivator should own his land", in all places where land reform has not yet been introduced, land debentures shall be issued to buy in the estates of those landlords who hold more than the permitted maximum and to distribute these estates to farmers who own little or no land.

Scope of Enforced Sales

Article 2.—If a landlord owns more than the maximum as prescribed below, his excess land shall be subject to an enforced sale:

- (a) An ordinary landlord may keep for each member of his family an average amount of land half as large again as the average amount owned by each member of a middle class farm family in that place, e.g. if each medium class farm family owns an average of 6 mow per person the landlord may have 9 mow for each person (1 mow equals 6.745 ares).

- (b) If any landlord distinguished himself during the war of resistance against Japan or during the fight for self-defence, he may keep for each member of his family twice as much as is owned by each member of a local middle class farm family, e.g. if each middle class farm family has 6 mow, for each person, the landlord may have 12 mow for each person.
- (c) If the landlord cultivates his land himself he cannot be forced to sell it.

Article 3.—If the landowner's home is outside the Border Areas he should keep the land according to the provisions of Article 2. Until the landowner's return to the Border Areas the land thus kept shall come under the competence of the local administration acting as his representative; on his return it shall at once revert to his own management.

Article 4.—If after a landowner has offered his land the land he has kept exceeds the maximum which may be kept under the provisions of Article 2, the part in excess shall also be subject to an enforced sale; if it is insufficient for what should be kept, application should be made by the district government to the Government of the Border Areas to issue land debentures to cover the deficit.

Article 5.—A rich farmer's land shall not be subject to enforced sale. Also excluded from enforced sale is all land leased out by those who are not the real owners of the land but cannot themselves cultivate it for lack of labour.

Assessment of Land Value

Article 6.—The prices of the land shall be fixed by agreement between the District Administrative Office, the Local Farmers' Association and the landlords. The basis of assessment shall be the local price of land and its quality. The price shall not exceed the total value of two years' normal crops from that land nor shall it be less than the total value of one year's normal crops.

These limits shall not apply to the assessment of land in thinly populated or newly reclaimed areas.

Article 7.—The price of the land shall be calculated on better class grain, measured by decalitre.

Article 8.—The principle "the higher the price the greater the reduction" is to be adopted in these sales. If the average price of an owner's land is less than the value of 5 hectolitres of grain, it shall be paid in full. If it is between that of 5 and 10 hectolitres only 80% shall be paid for the part exceeding 5 Hl.; between 10 and 15 Hl., only 60% for the part exceeding 15 Hl.; between 15 and 20 Hl., only 40% for the part exceeding 15 Hl.; between 20 and 25 Hl., only 20% for the part exceeding 20 Hl.; between 25 and 30 Hl., only 10% for the part exceeding 25 Hl.; for any part exceeding the value of 30 Hl. no payment shall be made.

EXAMPLES:—The average price of A's land equals the value of 5.5 Hl. According to the provisions of this Article no reduction is made for the value of the first 5 Hl., 80% is to be paid on the value of the remaining 0.5 Hl. In this case the actual price of the land will be equivalent to the value of 5.4 Hl. The average price of B's land equals the value of 24 Hl. this price is calculated as follows:—

5 Hl. (the first 5, at full value)
 Plus 4 Hl. (5, between 5 and 10, at 80% = value of 4 Hl.)
 Plus 3 Hl. (5, between 10 and 15, at 60% = value of 3 Hl.)
 Plus 2 Hl. (5, between 15 and 20, at 40% = value of 2 Hl.)
 Plus 0.8 Hl. (4 between 20 and 25, at 20% = value of 0.8 Hl.)
 Total actual price of land equals value of 14.8 Hl.

Article 9.—The total area of an owner's land shall comprise only that lying within the Border Areas.

Resale of Land

Article 10.—The land bought up by the Government shall be distributed, at half its original price, to farmers possessing little or no land, who shall pay by instalments within 10 years. If the farmers are too poor they may be exempted from payment with the approval of the Border Areas' Government, on application from their District Administration.

Article 11.—The land to be resold must be actually under cultivation and a reasonable adjustment of it shall be enforced so that all farmers may have approximately the same average amount and quality of land.

Article 12.—Priority in the purchase of land shall be given to the following:—

- (a) Poor tenant farmers or agricultural labourers already working on the land;
- (b) The poor descendants of those who lost their lives in the Revolution and the families of soldiers still in service or demobilised.

For each of these persons the total of the land bought and that originally in their possession shall not exceed the average holding of a local middle class farmer.

Article 13.—Refugees from other places shall enjoy the same privileges in buying land as the local residents. The amount of land which may be bought by artisans, petty craftsmen and small traders shall be regulated, according to the needs of their families and local land conditions, by the Village Administration together with the local Farmers' Association.

If land is sold to tramps or vagrants the local Administration is responsible to see that they work productively and do not leave their land uncultivated.

EDUCATIONAL PROBLEMS IN MANCHURIA

BY EVERETT D. HAWKINS

The departure of the Russians from Manchuria, the repatriation of the Japanese, and the struggle there between Chinese Nationalists and Chinese Communists have diverted attention from the real needs of the local people.

One of the most urgent problems in the North-eastern Provinces is education and re-education. Dr. W.H. Gow, President of the Mukden Medical College, explained the situation vividly in a letter dated May 29, 1946. He said:

Manchuria is today an intellectual vacuum. For fourteen years under Japanese rule the people in Manchuria had been prohibitively cut off from the rest of the world, while today, as a result of the chaotic conditions prevailing immediately after the defeat of Japan, all the educational institutions are still in no position to resume normal operation due to lack of textbooks, libraries, laboratory equipment, and even furniture in the classrooms.

But the people are craving for knowledge. They want to know what has happened during the war, and they want to have an intelligent understanding of the world situation at present and proper perspective of the immediate future.

Article 14:—The village shall be the unit for the resale of land; but where possible and necessary the District Administration can adjust the distribution of land between neighbouring villages.

Redemption of Land Debentures

Article 15:—The Border Areas' Government shall depute the Border Area Bank as the organisation in charge of the redemption of land debentures.

Article 16:—The fund for the land debentures shall be made up of the agricultural tax levied in the Border Areas together with the payments made by the farmers for land.

Article 17:—The face value of the land debentures shall be reckoned according to that of the better quality grain.

Article 18:—The land debentures shall be redeemable in 10 years, at an annual interest of 5 percent: the time of redemption shall be at the end of autumn each year.

Article 19:—The interest and capital due each year on land debentures can be used to pay agricultural tax within the boundaries of the district (hsien). Land debentures may be transferred or used as security but may not be circulated on the market.

Condition of School Buildings

Educational plants suffered from the various waves of soldiers who were quartered in the school buildings. Some have been occupied successively by Japanese, Soviet, Chinese Communist, and Chinese Nationalist troops. In Mukden most of the primary schools and many of the middle schools have at one time or another suffered extensive damage or looting. Many teachers have no desks and only small blackboards, and most primary students have either to bring their own little stools to school daily or sit on the brick floor. Frequently less than half the windows have glass. Many of the middle schools are in equally bad condition.

The former campus of Northeastern University is almost completely gutted of window frames, doors and floors; many of what used to be faculty homes no longer have roofs. The whole campus is so completely wrecked that it probably would be preferable to start rebuilding at some new site. The Japanese technical higher school and college and the Japanese girls' higher school which General Tu Li-ming took over for the new Chiang Kai-shek University are in fairly good shape. The Mukden Medical College and Theological Seminary are in relatively good condition. Probably the best of all is the South Manchuria Medical College which lost only one building out of many. On the whole, however, the job of reconstruction is tremendous.

With the repatriation of the Japanese completed in Nationalist-occupied Manchuria, all school buildings formerly used by the Japanese in their separate educational system became available for Chinese students. The school buildings, therefore, if repaired and devoted to education instead of the quartering of troops, are probably adequate in most localities to start the educational program.

An eloquent plea was made to the Generalissimo when he visited Mukden by Dr. T.L. Leo of the Mukden Medical College for funds to rehabilitate the primary and secondary schools. UNRRA-CNRRA funds are not available for general education rehabilitation, but an attempt was being made to obtain an allocation from them to help with the agricultural and industrial schools and colleges as part of the overall program to revive Manchurian agriculture and industry.

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Lack of Education

Not only are the buildings in bad shape, but modern textbooks and laboratory equipment are in most cases almost entirely lacking except in the South Manchuria Medical College. The Chinese do not want to use the old texts that still exist because they are full of Japanese ideas, emphasizing only agriculture and written in a peculiar style of Chinese which in some cases resembles the Japanese word order. Some of the slogans formerly used in the schools at the insistence of the Japanese were not easily understood by the Chinese from China because of this peculiarity of style. In the absence of texts, primary school teachers are using chiefly mimeographed sheets. They write the lessons on the blackboard and the students copy the characters in their own notebooks. The teachers have no pictures, maps, diagrams or models to aid in their teaching.

The Chinese Government is faced, therefore, with the job of bringing in paper mats from China proper or of setting type in Mukden or one of the other centers where the Government has taken over the printing plants from the Japanese. This presupposes that good texts are available in China proper. Apparently the Soviets did not remove printing equipment when they left and the bottleneck is probably not printing plants but paper, which was running very short even in the summer of 1946. A big school book program would undoubtedly necessitate the importation of paper which would not be much easier than bringing in the texts in view of the world paper shortage and the difficulties of bulk shipments into that region. The middle schools, colleges and technical schools will have to import their laboratory equipment and supplies since most industries are not running in southern Manchuria now. Again the problem of transporting them to the region is critical.

Teachers and Teacher Education

Much can be done in poor buildings with poor equipment if the teachers are well-trained. Unfortunately Manchuria is confronted by the problems concerning teachers which exist in all other countries plus a few peculiar to those countries which have been dominated by a fascistic regime. In Manchuria there is a scarcity of teachers, many still teaching are of low quality, and the salaries for primary and secondary school teachers are considerably below the starvation level and below the wage scale of ordinary day labourers. Some cost of living adjustment would eventually be granted but, by the time it was given, it would be hopelessly inadequate to meet the rising costs and the teachers, as well as other public employees, would then have to agitate for more.

A more basic problem involves most of the teachers who had taught since 1931 under the guidance and dominance of the puppet Manchukuo regime. The Japanese had encouraged and fostered the idea of separation from China proper and referred to the natives as Manchukuoans. Such propaganda was facilitated by the fact that the area had not been regarded even before the Japanese invasion as a part of China proper. Probably ninety percent of the population, however, stems from China and has oil "home roots" for the Nationalists to cultivate.

The Commissioner of Education of Liaoning Province planned to have during the summer of 1946 a number of training courses for the teachers and to recruit some who had been trained in free China, but even at best this would affect but a small number. Actually the task may not be so difficult if the Ministry of Education can send leaders and material from Nanking for its program of reeducation of the teachers. All of them seem most eager to prove that they never had any intellectual truck with the Japanese and that they had really been loyal to China throughout the long occupation.

Need for New Materials, Methods

Both primary and secondary leaders ask for books on new educational methods in China and allied countries. They are particularly anxious to know about American educational methods and policies. They want to establish science exhibits, libraries and teacher re-training centers. Undoubtedly the teachers are in the main willing to adopt new methods and to teach new ideas, but if they do not receive these new ideas and facts, they will of necessity continue to teach the old. This is the intellectual vacuum which needs to be filled. For this reason the United States Information Service in Mukden has been attempting to supply Chinese teachers with the limited quantity of picture materials, periodicals and booklets in Chinese and English which can be brought in by air. Some of its staff were interested in a Sino-American review which tried to reprint the best articles in Chinese and American periodicals, but this publication was stopped because the Chinese authorities thought that the material selected was unfavourable to the regime in power.

Japanese Schools

The United States Information Service, in cooperation with the Chinese Liaison Office, also supplied to the Japanese schools while they were still

open pictures and even Japanese newspapers and periodicals from Tokyo. The program developed after a conference with leading Japanese educators in Mukden who explained that they had always taught in Manchuria what had been taught in Japan. They were, therefore, anxious to receive all possible material from Japan so that they could learn what was being taught under the MacArthur regime in order to teach the same to their Japanese students. The old pattern of conformity was still present: militarism had been removed from their texts and material on democracy added because the educators had heard that that was being done in Japan.

Problem of Adult Education

The educational task in Manchuria is much greater than that of training the boys and girls in schools and their teachers. All the people of the region—both literate and illiterate—must be reached. The Kuomintang rushed its newspaper, radio and propaganda staffs into all the cities and towns that the Nationalist Army holds. Nationalist slogans are seen everywhere, many of them covering those issued earlier by the Chinese Communists or the Soviets. The public, however, seems indifferent to the slogans. By comparison, pictures posted by the United States Information Service at various points throughout the cities regularly draw large crowds of both educated and uneducated Chinese.

The Nationalist radio men are frustrated by the lack of power because of the removal of generators by the Soviets. The various New Armies, especially the 202nd Educated Youth Army, brought along their own propaganda shops and put on plays and moving pictures not only for their own troops but for the local people. Few newspapers, magazines and books can be brought in from the rest of China because of the disruption of transportation. Nothing unfavourable to the Nationalist regime is printed in the local papers. In fact, the various mass media used by the Kuomintang are apparently not concentrating in re-educating the population and consolidating the Northeast with the rest of China, but are primarily concerned with attacking the Communists in the Northeast who are always referred to as "bandits."

Education depends to a large extent on a relatively stable economic and political situation, neither of which exists in Manchuria. Until transportation, production and inflation problems are solved and civil war is stopped the important task of re-education in Manchuria cannot go forward rapidly.